



INVESTMENT GUIDE TO
BRASIL2017



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PREFACE

Welcome to our comprehensive guide to investing in Brazil. In this publication you will gain an insight into Brazil's economy and the essentials you need to know in order to successfully invest in the Brazilian market.

Brazil is an open and diversified economy with a wide array of opportunities across multiple productive sectors. For many investors, considering growing a business in a market as vast and dynamic as Brazil is an exciting prospect. This is why the Government of Brazil is making a concerted effort to help support international investors who are developing business projects in Brazil. Brazil is open for business, and we are here to help.

For simplification and standardization purposes, this guide has converted all amounts originally stated in the Brazilian currency, the real (BRL), into US dollars (USD). The exchange rate used was the average of the official Brazilian Central Bank rate (BCB DEPEC) for April 2017.

1 USD = 3.1356 BRL

ABOUT THIS GUIDE

This guide brings together essential **information**¹ from various government sources to make it easier for you to get to know Brazil, its economy, productive sectors, business climate and investment framework.

This guide is designed to meet the needs of two types of investor. For potential investors unfamiliar with Brazil, the guide contains useful, fact-filled information, profiles Brazil's economy and provides snapshots of major business opportunities in productive sectors. For investors ready to do business in Brazil and existing investors seeking to expand their Brazilian business operations, the guide also serves as a reference companion to Brazil's investment framework, including how to establish and run a business in the country and government incentive programs to help expand businesses in priority sectors.

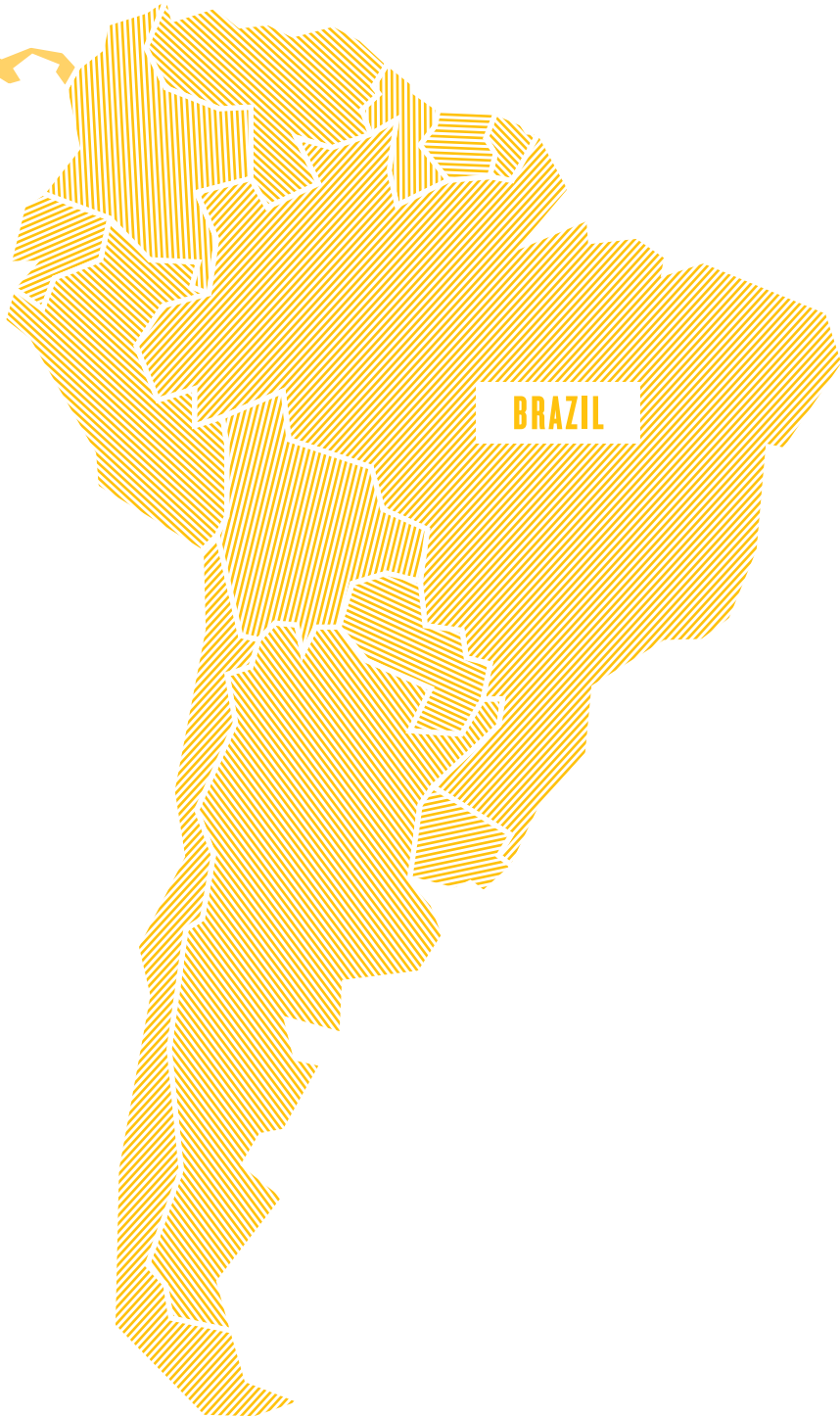
Endnotes:

1. The information contained in this guide was compiled in 2017.

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WELCOME TO

1 WELCOME
TO **BRAZIL**



10 KEY REASONS FOR INVESTING IN BRAZIL

1 LEADING REGIONAL ECONOMY

▶ Brazil is a global powerhouse, ranking among the top 10 economies in the world and the largest in Latin America, with a USD 1.8 trillion dollar GDP in 2016 and an average GDP growth rate of 2.6% since 2000.

2 GLOBAL DESTINATION FOR INVESTMENT

▶ Brazil continues to be among the top 10 recipients of FDI in the world and the only Latin American country on that list. FDI flows to Brazil totaled over USD 590 billion from 2010 to 2016, averaging over USD 85 billion per year according to Brazilian Central Bank data.

▶ Brazil is open to foreign direct investment and continues to attract leading and innovative international businesses thanks to profitable opportunities underpinned by robust domestic investor protection rules enforced by an independent judiciary.

▶ Brazil has a credible judicial system and a fair regulatory environment, providing security for investors.



3 RESILIENT DOMESTIC MARKET

- ▶ Brazil has one of the largest consumer markets in the world, with over 207 million inhabitants.
- ▶ Poverty in the country is at its lowest level, according to the World Bank's latest data, after tens of millions of Brazilians have been lifted out of extreme poverty through government assistance programs and real increases in the minimum wage, including above inflation rates.

4 DIVERSIFIED ECONOMY

- ▶ With a huge potential for growth, Brazil is home to a competitive industrial sector, including Latin America's largest aerospace, automotive, oil and gas, mining, capital goods, medical equipment and chemical industries.

5 ENERGY POWERHOUSE

- ▶ Brazil has one of the largest petroleum reserves and is home to one of the biggest oil discoveries made in the Western Hemisphere in the past 30 years: the ultra-deepwater oil finds off Brazil's southeast coast known as 'pre-salt' oil.
- ▶ Brazil is one of the top producers and exporters of ethanol biofuel in the world.
- ▶ Renewable sources are now responsible for over 40% of Brazil's energy matrix, one of the highest levels in the world. With Brazil's large supplies of water, hydroelectric power provides over 60% of Brazil's electricity needs. Wind, biomass and solar energy continue to grow in importance.

6 A LARGE POOL OF WORKERS

- ▶ With an active working age population (15-64 years old) of around 70%, which is above the world average of 65%, Brazil's domestic market offers good opportunities for companies seeking to hire.
- ▶ Brazilian adults with advanced education make up almost 20% of the total, and the gross enrolment ratio at universities and technical schools is rising: from 18% of people finishing secondary education in 2011 to 50% in 2014, ahead of countries like China (43%) and India (25%).

- ▶ Young, dynamic workforce, supported by government professional training programs that can be implemented in partnership with businesses.

7 EXTENSIVE RAW MATERIALS

- ▶ Brazil's nature resources are abundant, making the country a major player in raw materials. It is a major producer and exporter of agricultural products and mining products (especially iron ore), to name a few. Its forests are a vast source of wealth.
- ▶ The country is also water-rich, estimated to hold the biggest fresh water reserves in the world.



8 CAPACITY TO ENDURE

- ▶ Brazil is resilient and steadfast, capable of withstanding an adverse international economic scenario.
- ▶ In 2010, Brazil became a net external creditor, paying off its debt to the International Monetary Fund, and has accumulated international reserves ever since, totaling USD 370 billion in 2017.

9 GLOBAL PLAYER, THE B IN BRICS

- ▶ Brazil has been a constant global player, always active and engaged in international politics, coordinating trade, policies and human rights advocacy, and earning the respect of its peers. With a large economy, sound political and judicial systems and active engagement in foreign relations, Brazil plays an important role in the international community.

10 GATEWAY TO LATIN AMERICA

- ▶ Brazil's largest cities are consolidating their position as global investment headquarters not only for Brazil, but for the entire Latin American region.
- ▶ Brazil shares land borders with Argentina, Bolivia, Colombia, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela, as well as the French Overseas Region of French Guiana.
- ▶ Brazil has free trade agreements with the largest markets in Latin America and is a member of the South American Common Market (Mercosur).

FOREIGN DIRECT INVESTMENT IN BRAZIL

After the economic slowdown of the past two years, international investors are now able to see improvements in policies that facilitate and promote foreign investment in Brazil. Recent data has shown strong recovery in FDI inflows, while new regulations in place seek to open new fields for investment and modernize previous guidelines.

Data from February 2017 showed Brazil had received a net influx of USD 84.4 billion over the previous 12 months, a sound increase from the USD 77.1 billion one year earlier and USD 71.6 billion recorded in the year ending July 2016. This reflects renewed confidence levels in the government's economic policies and the improved perception of investors with regards to the economy.

Brazil remained strongly positioned in the top 10 FDI inflows in 2016, ranking 6th place, above France and India, even during an adverse economic scenario.

With new laws that now allow foreign investment in sectors such as health care, investors will be able to invest in major markets in Brazil. They will also find better terms in the oil industry since partnering obligations with the state-owned oil company Petrobras are no longer mandatory in the promising pre-salt fields.

In addition to the new rules regarding certain industries, Brazil's Central Bank issued new guidelines to enhance procedural efficiency in foreign investment registration. One of the main changes made by the new rules dictates that the recipient company is solely responsible for registering the investment, making it simpler to update and verify information. Before that, foreign investors themselves also needed to register.

► Estimated FDI inflows: top 10 host economies, 2016*

COUNTRY	FDI (BILLIONS OF US DOLLARS)
UNITED STATES	385
UNITED KINGDOM	179
CHINA	139
HONG KONG (CHINA)	92
SINGAPORE	50
BRAZIL	50
FRANCE	46
NETHERLANDS	46
AUSTRALIA	44
INDIA	42

Source: UNCTAD

*Note: UNCTAD's FDI data may be different from the Brazilian Central Bank's data

SOURCES

- Foreign Direct Investment Manual, Brazilian Central Bank (Portuguese only): <http://www.bcb.gov.br/ftp/infecon/RDE/ManualRDE-IED.pdf>
- Central Bank Resolution 4.533, Nov 24, 2016 (Portuguese only): https://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/50287/Res_4533_v1_O.pdf
- EY Tax Alert report (Portuguese only): [http://www.ey.com/Publication/vwLUAssets/TA_mudancas_BACEN/\\$FILE/TA_Mudancas_sistema_de_registro_de_investimento_BACEN_dezembro%202016.pdf](http://www.ey.com/Publication/vwLUAssets/TA_mudancas_BACEN/$FILE/TA_Mudancas_sistema_de_registro_de_investimento_BACEN_dezembro%202016.pdf)
- MDIC investment announcement data (Portuguese only): http://investimentos.mdic.gov.br/noticia/conteudo/sq_noticia/806
- FDI report 2016, UNCTAD (English): http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1_en.pdf
- Central Bank's IDP data <https://www3.bcb.gov.br> (English)

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DISCOVER



2 DISCOVER
BRAZIL





INTRODUCTION

Brazil is the main economy in Latin America and one of the top 10 countries in the world in population, landmass and gross domestic product (GDP).

A major player in international trade, Brazil has proven to be an open and vibrant country with a diversified economy and one of the largest consumer markets in the world. It also has a highly productive agriculture sector, a broad and sophisticated industrial base, one of the most solid and prudently regulated financial sectors in the G20, the largest stock market in Latin America and abundant natural resources.

This section provides a snapshot of Brazil, including a profile of the country, its economy, institutions, openness to foreign investment, financial system, infrastructure and participation in international trade.



OVERVIEW OF BRAZIL'S TERRITORY, STATES AND PEOPLE

CLIMATE

Brazil is one of the world's largest countries and has a wide range of climates and biomes across its territory. Located almost completely in the southern hemisphere, Brazil's summer begins in December and runs until March, while winter starts in June and lasts until September.

For the most part, this vast country has cool to hot temperatures, although this varies from one region to another: southern parts tend to be mildly cold in the middle of the year, while northern areas are warm even during winter.

The Amazon Rainforest covers most of the Northern region and has a humid, hot climate almost the entire year. As it is an equatorial region, it has only two seasons: a dry season, from June to September, and a rainy season, from October through May.

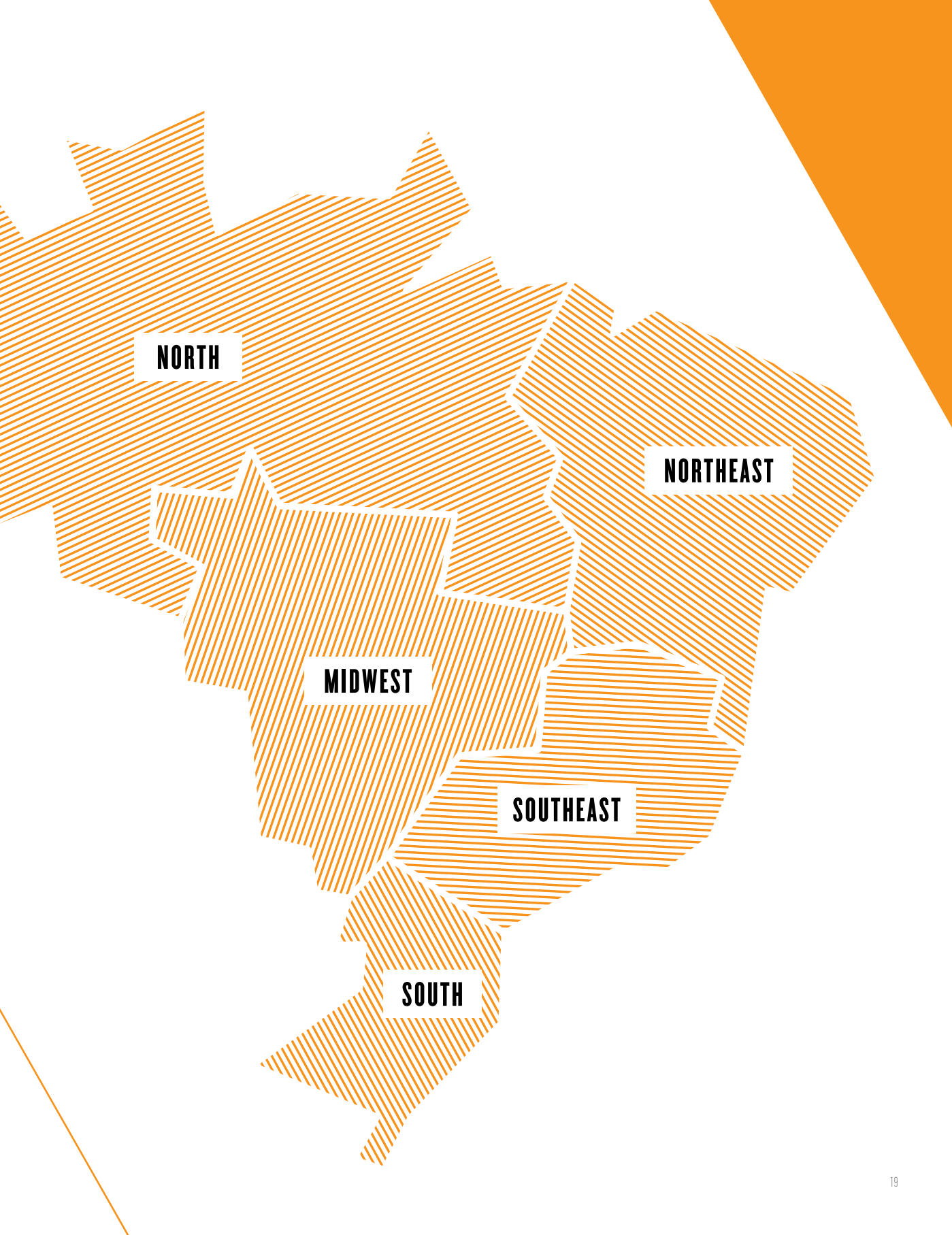
The Northeast region has a mix of dry weather inland and humid weather in coastal areas. High temperatures and severe droughts are common in the countryside, where the main biome is a

type of scrubland called *caatinga*. The coastal area of the region is sunny and warm most of the year.

The Midwest is also somewhat dry, but unlike the Northeast it has more fertile soil, suitable for growing large-scale crops. Its main biome is called the *cerrado*, which is similar to a savannah. The southern part of the region is home to a unique wetland called the Pantanal.

The Southeast is covered by the Atlantic Rainforest and some of its states have more defined seasons. The region's more mountainous areas can experience rather low temperatures during winter, while it is warm in summer.

The South is the coldest region in the country and it is also covered by the Atlantic Rainforest. The countryside of the region's southern parts is home to natural pastures called *pampas*.



NORTH

NORTHEAST

MIDWEST

SOUTHEAST

SOUTH

TERRITORIAL ORGANIZATION OF BRAZIL

BRAZIL IS DIVIDED IN 26 STATES AND ONE FEDERAL DISTRICT (WHERE THE CAPITAL, BRASÍLIA, IS LOCATED), ALL WITH AUTONOMOUS ELECTED GOVERNORS. THE STATES ARE COMMONLY ORGANIZED INTO FIVE REGIONS: NORTH, NORTHEAST, MIDWEST, SOUTHEAST AND SOUTH. THERE IS NO REGIONAL ADMINISTRATION – THIS DIVISION REFERS TO GEOGRAPHIC FACTORS.

THE NORTH

STATES: AMAZONAS, PARÁ, ACRE, RONDÔNIA, RORAIMA, AMAPÁ, TOCANTINS

The North is the largest region of the country, with some 3.8 million km² — or 45% of the country — and 7 states. Despite its vastness, it is the region with the lowest population density in the country, being mostly covered by the Amazon Rainforest. It is home to immensely important drainage basins, such as the Amazon River basin. It is estimated to contain one-fifth of the entire planet's freshwater reserves, representing great potential for power generation.

Economically, the southern part of the region has a well-developed agribusiness industry, mostly focused on soy and cattle. Manaus, the capital of the state of Amazonas, is the largest Free Trade Zone in the country and attracts many manufacturers, especially from the electrical and electronics industries. The state of Pará is also an important center of commerce in the region because of the major port in the state capital of Belém. It also has enormous mining potential — the Carajás Iron Ore Mine is the second largest of its kind in the world.

THE SOUTH

STATES: PARANÁ, RIO GRANDE DO SUL, SANTA CATARINA

The South has some of the highest levels of infrastructure quality in Brazil, as well as scoring well on the Human and Economic Development Indexes. When it comes to agribusiness, it is focused on wheat and livestock. One interesting cultural aspect of the South is the European immigration that sunk deep roots in the region, shaping the landscape and local culture.

Curitiba, the capital of the state of Paraná, is the region's largest city. Paraná is home to some important infrastructure, such as the Itaipu hydroelectric power plant and the port of Paranaguá, a major hub for grain exports.

The state of Rio Grande do Sul, on the other hand, has the most diversified economy in this region, with strong agriculture, food production, processing industry and steelmaking.

THE NORTHEAST

STATES: MARANHÃO, PIAUÍ,
CEARÁ, RIO GRANDE DO NORTE,
PARAIBA, PERNAMBUCO,
BAHIA, ALAGOAS, SERGIPE

The Northeast region has an important place in the Brazilian economy. It is home to industry and has the second-largest population in the country, with over 53 million people.

The coastal areas are famous for their picturesque landscapes and beaches, making tourism one of the region's main economic activities.

Due to its climate, the countryside is frequently exposed to droughts, meaning the coastal regions are home to the bulk of the Northeastern population. The São Francisco River is the most important drainage basin in the region and its irrigation projects are crucial for the economic survival of the inland population.

Salvador and Recife are the main urban areas, with the former being an important local industrial center and the latter hosting the Suape Industrial Complex and the Recife Digital Port, an ICT innovation hub.

Sizable oil fields and mineral deposits are located in the region and in recent years the federal government (by way of the Northeastern Brazil Development Agency – Sudene) has prioritized strategic investment in the Northeast in order to boost regional development.

THE MIDWEST

STATES: FEDERAL DISTRICT,
GOIAS, MATO GROSSO,
MATO GROSSO DO SUL

Brazil's Midwest is home to vast agricultural areas and is the largest soy producer in the country, as well as playing a large role in cattle breeding. It is composed of two of Brazil's most important biomes: the cerrado grasslands and the wetlands of the Pantanal.

Once one of the most isolated areas of the country, the Midwest has seen the rapid expansion of its rural production and has established new industries. Brazil's capital, Brasília, is home to major universities and government agencies. Its construction in the 1950s was a crucial turning point for the region's development. Goiânia, the capital of the state of Goiás, is another important commercial center in the Midwest.

THE SOUTHEAST

STATES: ESPÍRITO SANTO,
MINAS GERAIS, RIO DE
JANEIRO, SÃO PAULO

The Southeast is the wealthiest region of the country and also the most populous, with around 80 million people (according to the 2010 census). It is home to Brazil's two biggest cities, São Paulo and Rio de Janeiro.

With over 12 million inhabitants (2017 estimate), São Paulo is the largest city in South America and the financial center of Brazil, as well as being the most popular destination for business tourism. The state is responsible for 36% of the country's industrial output, as well as 33.5% of services and 12% of agriculture.

Rio de Janeiro is the second-wealthiest city in Brazil and home to the headquarters of two of the country's biggest companies, Petrobras and Vale. It has recently gained even more international attention due to the 2016 Olympic Games.

The Southeast is also an important energy producer. Minas Gerais has large hydroelectric power stations, such as the Furnas hydroelectric power plant. São Paulo is a major producer of ethanol and shares large reserves of oil and gas with Rio de Janeiro, such as the "pre-salt" oil fields. The state of Espírito Santo also has oil and gas reserves and exploration, but on a smaller scale.

BRAZIL IN TERRITORY

- ▶ Brazil is the fifth-largest country in the world by total area and occupies almost half of the continent of South America
- ▶ Brazil is the world's fourth-largest democracy
- ▶ At the heart of South America: Brazil occupies almost half of the South American continent and shares land borders with Argentina, Bolivia, Colombia, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela, as well as the French Overseas Region of French Guiana.
- ▶ Most of the Amazon Rainforest is situated within Brazil's borders
- ▶ Administrative divisions: Brazil is divided into 26 states and a Federal District, which have their own directly elected governments
- ▶ Population distribution per region: Southeast (42.13%), Northeast (27.83%), South (14.36%), North (8.32%) and Midwest (7.37%)

SIZE **8,515,767.6** km²

LAND BORDER **15,735** km

COASTLINE **7,367** km

ARABLE LAND **388** MILLION HECTARES

NUMBERS

DEMOGRAPHICS

- ▶ Brazil is the fifth-largest country in the world by population.
- ▶ Demographic Dividend: Brazil's population legally allowed to work (from 15 to 64 years old) totals around 80% of the population
- ▶ Over 40 million Brazilians have entered the middle class since 2002
- ▶ Almost 40 million Brazilians have been lifted out of extreme poverty since 2011
- ▶ Around 85% of the population lives in urban areas
- ▶ Largest cities: São Paulo (12m), Rio de Janeiro (6.5m), Salvador (3m), Brasília (3m), Fortaleza (2.6m), Belo Horizonte (2.5m), Manaus (2.1m), Curitiba (1.9m), Recife (1.6m), Porto Alegre (1.5m)
- ▶ Ethnicity: white 48.2%, mixed ancestry 44.2%, black 6.9%, Asian 0.7%, indigenous peoples of Brazil 0.7%
- ▶ Religion: no state religion exists in Brazil and the Constitution guarantees freedom of belief and expression. Most of the population is Christian (64.6% Roman Catholic and 22.2% Protestant), 8% do not adhere to a religion, and 2% are Spiritist. (2010 Census)

LANGUAGE PORTUGUESE

TOTAL POPULATION
207.3 MILLION (2017)

SOURCES

- ▶ Brazilian Population, IBGE (Portuguese only): <http://www.ibge.gov.br/apps/populacao/projecao/>
- ▶ Brazilian Territory, IBGE (Portuguese only): <http://www.brasil.gov.br/governo/2009/11/territorio>
- ▶ https://www.bnb.gov.br/documents/88765/89729/novo_perfil_nordeste_brasileiro_censo_demografico_2010.pdf/34cfcc2e-1048-4dc1-9342-46b13eda208b
- ▶ Brazilian Cities, IBGE (Portuguese only): <http://cidades.ibge.gov.br/xtras/perfil.php?codmun=355030>

ECONOMY

Brazilian nominal GDP was USD 1.8 trillion in 2016, according to latest IMF data, putting the country among the 10-largest economies in the world. An economic recession hit the country in 2015 and 2016, following China's slowdown and internal political turbulence, interrupting several years of sustained growth. However, the country's domestic market and economic diversification proved to be a solid, enduring foundation. Prospects for the future are brighter, putting Brazil back on the path to growth amid new reforms by the federal government to reign in public spending, control inflation and promote businesses and jobs.

The adverse economic scenario of the past couple of years has prompted the government to act. In late 2016, it presented proposals for a new labor reform, aiming to create jobs and modernize current laws. For 2017, there is an ongoing national debate around a new reform to simplify the currently complex tax code.

On the fiscal responsibility front, a new constitutional amendment was approved in December 2016 to establish a 20-year ceiling for public spending, adjusted only by inflation. Government officials and economists say this will create the necessary conditions to resume economic growth and avoid high inflation rates, which have nonetheless been falling.

BRAZILIAN ECONOMIC DEVELOPMENT

Brazil in the 21st century is very different from the Brazil of the 1980s, when the country was buffeted by a series of international debt crises. The country has since grown significantly, backed by strong macroeconomic and market fundamentals as well as the development of its industries, agriculture and the service sector. In 2010, Brazil became a net external creditor, paying off its debt to the International Monetary Fund, and has accumulated international reserves ever since, totaling USD 370 billion in April 2017.

At the same time, welfare programs such as the internationally renowned Bolsa Família (a conditional cash transfer program for families) have lifted millions of Brazilians out of poverty and into an expanding middle class. Since the early 1980s, the share of the population living in poverty (people living under USD 1.90 a day) was reduced from over 30% to 3.7% in 2014, improving the domestic market and offering investors a significant potential consumer market.

AN INDUSTRIAL AND RESOURCE POWERHOUSE

As one of the 10 largest economies in the world, Brazil has it all: a huge domestic market, natural resources, developed industries and vast amounts of land. It is the world's fifth-largest country by population and landmass and figures next to China and India as the biggest emerging markets in the world.

In advanced manufacturing, Brazil hosts many leading multinational manufacturers, as well as homegrown companies, in aerospace, automotive, capital goods, chemicals, construction, electronics, engineering, information and communications technologies, life sciences and oil and gas. Brazil is also home to world-class service industries, including construction, engineering and financial and professional business services.

Commodities continue to play a major role in the Brazilian economy. The country is among the top producers and exporters of a wide range of commodities, including biofuels (ethanol and biodiesel), iron ore, soybeans, coffee, oranges, poultry, beef, pork, aluminum and forest products. Brazil is also the second-highest exporter of food, according to a 2015 study from the Food and Agriculture Organization (FAO).

Oil and gas discoveries in the past 10 years, as well as abundant renewable energy resources, including hydro, wind and solar power, all contribute to increasing Brazil's status as a major international energy player, currently holding the 14th largest crude oil reserve on the planet, with over 16 billion barrels.

▶ Nominal GDP of USD 1.8 trillion in 2016

▶ GDP per capita: USD 8,726.90 in 2016

▶ GDP growth:

GROWTH	YEAR
5.80%	2004
3.20%	2005
4.00%	2006
6.10%	2007
5.10%	2008
-0.10%	2009
7.50%	2010
4.00%	2011
1.90%	2012
3.00%	2013
0.50%	2014
-3.80%	2015
-3.60%	2016
0.41%	2017*
2.50%	2018*

Source: IBGE and Brazilian Central Bank - Market estimates (official Focus report April 2017)

▶ GDP share per sector: 73.3% services, 21.2% industry, 5.5% agriculture

▶ Unemployment rate (average):

RATE	YEAR
7.30%	2012
7.20%	2013
6.80%	2014
8.30%	2015
11.30%	2016
13.20%	2017

Source: IBGE

▶ Sovereign credit rating: BB (Fitch), Baa2 (Moody's), BB/B (S&P)

▶ International reserves: USD 370.1 bn (March 2017)

▶ Net public debt (% of GDP)

DEBT (% OF GDP)	YEAR
32.30%	2012
30.60%	2013
33.10%	2014
36%	2015
45.20%	2016

Source: National Treasury report

► Exports

EXPORTS	YEAR
USD 198 BN	2008
USD 153 BN	2009
USD 202 BN	2010
USD 256 BN	2011
USD 243 BN	2012
USD 242 BN	2013
USD 225.1 BN	2014
USD 191 BN	2015
USD 185 BN	2016

Source: MDIC

► Annual foreign direct investment, net:

IDP	YEAR
USD 88.45 BN	2010
USD 101.1 BN	2011
USD 86.6 BN	2012
USD 69.2 BN	2013
USD 96.9 BN	2014
USD 74.7 BN	2015
USD 78.9 BN	2016

Source: Brazilian Central Bank

LATEST ECONOMIC DATA

For the latest economic indicators, the Brazilian Central Bank provides monthly charts in English.

- The most recent edition is available from the following link (English): <http://www.bcb.gov.br/?INDICATORS>
- BCB also publishes weekly market research called the FOCUS Report (English): <http://www.bcb.gov.br/en/#!/n/FOCUSREPORT>

SOURCES

- Brazilian GDP Numbers, IBGE (English) <http://saladeimprensa.ibge.gov.br/en/noticias.htm?view=noticia&id=1&idnoticia=3384&busca=1&t=gdp-srinks-3-6-in-2016-and-closes-the-year-at-r>
- Brazilian National Economic Data, IBGE (Portuguese only) ftp://ftp.ibge.gov.br/Contas_Nacionais/Contas_Nacionais_Trimestrais/Fasciculo_Indicadores_IBGE/pib-vol-val_201604caderno.pdf
- Brazil Country Data, World Bank (English) <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=BR>
- <http://www.bcb.gov.br/pt-br/#!/n/RESERVA>
- Brazilian Poverty Actions (English): <http://www.brasil.gov.br/centro-aberto-de-midia/news/brazil-lifts-36-million-out-of-extreme-poverty-and-hits-un-target-for-child-mortality>

POLITICAL SYSTEM

Since returning to democracy in the early 1980s, Brazil has sought to improve accountability and ensure the strict separation of powers. In 1988, Brazil adopted a new Constitution, which enshrines liberal democracy in Brazil.

Brazil is a constitutional democracy with a presidential system divided into three branches: executive, legislative and judicial. The 1988 Brazilian Constitution provides for executive power to be vested in a president elected every four years, who is both head of state and head of the government.

There are three levels of executive government in Brazil: federal, state and municipal. States and municipalities have administrative jurisdiction or remaining jurisdiction over all matters that are not reserved to the federal government.

The president of Brazil is both head of state and government, elected by universal adult suffrage in a two-round system, for a term of four years, and can be reelected once. The president is advised by his cabinet, composed of ministers entrusted with a specific portfolio of responsibility.

The legislative branch is the bicameral National Congress, divided into the House of Representatives and the Senate. The members of the House of Representatives are elected every four years by proportional representation and composed in proportion to the states' populations, totaling 513 representatives. Senators are elected every eight years using first-past-the-post voting (the candidate or candidates who receive more votes in each state are elected). The Speaker of the House is also the Speaker of the Brazilian Congress, which is the union of both plenary sessions tasked with voting on constitutional matters. The electoral system ensures equal representation among all 26 states and the Federal District, with three seats per state, totaling 81 senators.

As for the judiciary, the Federal Supreme Court is the highest court in the country and has final word in all matters regarding constitutional interpretation. The Supreme Court judges are appointed by the president as vacancies arise following the retirement or death of an incumbent. Beyond the top court, there are five constitutional divisions: 1. Federal Jurisdiction; 2. Labor Jurisdiction; 3. Electoral Jurisdiction; 4. Military Jurisdiction; and 5. State Jurisdiction. Except for crimes concerning human life, cases are generally decided by a judge, not a jury.

FINANCIAL SYSTEM

The Brazilian Financial System (SFN) is a stable and mature environment, with a strong and independent supervisory body on one side, backed by robust commercial institutions on the other. It partly results from the structural reforms carried out in the 1990s, immediately after the "Real Plan," which introduced a new currency and controlled hyperinflation. Tighter rules on solvency and liquidity were applied to banks; inflation and interest rate control were systematized and new branches were created, such as the Central Bank's Monetary Policy Committee (COPOM), responsible for defining the stance of monetary policy and the short-term interest rate, and the Credit Guarantee Fund (FGC), a non-profit, private fund funded and managed by financial institutions as a basic form of protection for account holders and investors.

The system comprises almost 1,800 public, private, national and international banks, brokerages, credit unions and other operators. They are all regulated by the Central Bank of Brazil (BCB),

an autonomous regulatory institution and the monetary policy guardian. Commitment to price stability through an inflation-targeting regime, reference interest rates and a floating exchange rate are core targets of the Central Bank of Brazil's work. Together with the primary surplus, these are the three pillars that form the so-called "macroeconomic tripod," which has been driving Brazilian economic policies for almost two decades and ensures public commitment to responsible and sustainable management.

Currently, Brazil is seeing rapid improvements to relevant indicators after some tough years for its economy. The Broad Consumer Price Index (IPCA) - Brazil's official inflation data collected by the federal statistics institute (IBGE) - which ended 2016 with a 6.3% increase, had already slowed to 4.6% for the 12 months to March 2017, and was expected to be near 4% by the end of 2017. The slowdown of prices allowed for a new cycle of interest rate cuts by the Central Bank, which led the Selic Interest Rate (the annual benchmark interest rate of Brazilian monetary policy) to go from 14.25% in August 2016 to 11.25% in April 2017. This has created fresh conditions for decompressing consumption and stimulating investment.

In 2009, Brazil became a net creditor of the International Monetary Fund (IMF), while a number of Eurozone economies were applying to the IMF for stabilization loans. Since then, it has accumulated international reserves of USD 370 billion, as of March 2017, nearly 20% of the country's GDP. This is enough to pay off all the public external debt nearly twice over.

THE BRAZILIAN FINANCIAL SYSTEM IS MADE UP OF FOUR MAIN INSTITUTIONS

- ▶ **MINISTRY OF FINANCE**
- ▶ **CENTRAL BANK OF BRAZIL (BCB)**
- ▶ **SECURITIES AND EXCHANGE COMMISSION OF BRAZIL (CVM)**
- ▶ **ADMINISTRATIVE COUNCIL FOR ECONOMIC DEFENSE (CADE)**

THE BRAZILIAN FINANCIAL SYSTEM IS MADE UP OF FOUR main INSTITUTIONS

MINISTRY OF FINANCE

www.fazenda.gov.br

(Portuguese only)

The Ministry of Finance is the federal government department responsible for framing and implementing Brazilian economic policy. The Ministry has a broad mandate covering currency, credit, financial institutions, tax policy, administration of public accounts, management of public debt, international economic dialogue and coordinating Brazil's participation in international economic bodies.

CENTRAL BANK OF BRAZIL (BCB)

<http://www.bcb.gov.br/>

(English version available)

The Central Bank is primarily responsible for maintaining price stability in the economy. As an autonomous government institution, it has a dual role, both as the executor of monetary policy and regulator of the financial market. Liquidity, credit, interest rates, international capital flows and exchange rates are some of the elements it must monitor and balance. The monetary authority is also responsible for overseeing the proper functioning of banks and financial institutions and enforcing compliance with the system's rules.

SECURITIES AND EXCHANGE COMMISSION OF BRAZIL (CVM)

www.cvm.gov.br

(English version available)

The Brazilian Securities and Exchange Commission's duty is to monitor and develop the securities market in Brazil. It is an independent agency linked to the Ministry of Finance but not subordinated to it. It has a mandate to ensure the proper functioning of stock exchanges and over-the-counter markets; protect securities holders against fraud; ensure public access to relevant information about Brazil's securities market and the companies that issue securities; ensure fair trading practices; encourage savings and investments in securities; and promote the expansion and efficiency of the securities market in Brazil to benefit the capitalization of Brazil-based companies.

ADMINISTRATIVE COUNCIL FOR ECONOMIC DEFENSE (CADE)

www.cade.gov.br

(Portuguese only)

The Administrative Council for Economic Defense (CADE) is an independent agency which reports to the Ministry of Justice and is the Brazilian antitrust council, responsible for protecting free competition. Its mission is to investigate and ultimately decide on issues of competition by analyzing mergers, investigating anticompetitive conduct and imposing penalties if applicable. CADE is a part of the Brazilian Competition System (SBDC), which also includes the Economic Supervision Office (SEAE), a branch of the Ministry of Finance responsible for policies of competition and regulation.

COMPLEMENTARY INSTITUTIONS TO THE BRAZILIAN FINANCIAL SYSTEM

B3

www.b3.com.br
(English version available)

"Brasil, Bolsa, Balcão" ("Brazil, Stock Exchange, Over-the-Counter"), or simply B3, is the central entity for Brazilian capital markets. It was established in March 2017 when the securities, commodities and futures exchange BM&FBOVESPA (www.bmfbovespa.com.br) was merged with Cetip (www.cetip.com.br), a provider of financial services for the organized over-the-counter (OTC) market. This merger made B3 the world's fifth-largest exchange in terms of market value, which was USD 13 billion by the time the merger was concluded. It is the only securities, commodities and futures exchange operating in Brazil and is the country's leading clearinghouse for private assets and the leading depository for fixed-income securities in Latin America.

BRAZILIAN DEVELOPMENT BANK (BNDES)

www.bndes.gov.br
(English version available)

The main financing agent for development in Brazil. The bank offers several financial support mechanisms, including subsidized credit and grants, to Brazilian companies of all sizes, as well as to government entities and projects.

CAIXA BANK (CEF)

www.caixa.gov.br
(Portuguese only)

The "Caixa Econômica Federal," also referred to as CEF or simply "Caixa," is a public bank that operates both as a commercial bank, providing accounts and lending, as well as an agent of public policies. Several government benefits are managed and paid through Caixa, such as the FGTS employee fund, unemployment allowances and cash transfer programs like "Bolsa Família".

USEFUL LINKS

► Countries with facilities of Brazilian banks, BCB Feb/2017 (English)

<http://www.bcb.gov.br/htms/deorf-i/d201702/Chart%2012%20-%20Countries%20with%20facilities%20of%20Brazilian%20banks%20abroad.pdf>

► Representatives of foreign institutions in Brazil, BCB Feb/2017 (English)

<http://www.bcb.gov.br/htms/deorf-i/d201702/Chart%2016%20-%20Brazilian%20Banks%20Subsidiaries%20Abroad.pdf>

INFRASTRUCTURE IN BRAZIL

In a continental country such as Brazil, infrastructure is an especially relevant matter. Transportation, logistics, power generation, sanitation and housing are core issues for Brazil's development, as well as great business opportunities themselves.

A promising scenario for investments, a clean and diversified energy matrix and some of Latin America's biggest ports and hubs are among the things that make Brazil stand out. Investment in infrastructure has almost tripled in the past few years, from BRL 48.6 billion (USD 15.5 billion) in 2007 to BRL 130 billion (USD 41.5 billion) in 2014, taking into account both public and private capital.

However, there is still much to be done and infrastructure remains a major priority, with several ongoing projects and financing programs. By the end of 2016, the federal government announced huge concessions and a public-private partnerships (PPPs) package that included 34 assets and services to be auctioned by 2018. Named Projeto Crescer ("Growing Project"), this package is part of the Investment Partnerships Program (PPI), an initiative launched in 2016 by the government to foster the relationship between the government and private enterprise and to stimulate a new cycle of infrastructure investments.

In March 2017, four major airports in state capitals were the first to be auctioned under the new program, raising BRL 3.7 billion (USD 1.18 billion) in 25 to 30-year concession contracts. Port terminals, railroads, power plants, mining areas and water and sanitation services are some other assets scheduled to be auctioned soon, all of which are detailed on the following website: www.projetocrescer.gov.br/projects.

The PPI complements the Accelerated Growth Program (PAC), a monumental program of infrastructure investments launched in 2007.

In addition to those programs, Brazil will also join the world's largest oil producing countries in a few years' time as it advances its "Pré-Sal" exploration. The huge offshore pre-salt oil layer discovered off the Brazilian coast in 2007 already produces 1.5 million barrels a day (as of February 2017) – more than half of the 2.8 million barrels produced nationwide. New bidding processes for unexplored areas will take place in the next few years.

- ▶ 64,844.7 km of paved federal highways (CNT/February 2017)
- ▶ 211,418.4 km of total paved road network (CNT/February 2017)
- ▶ 30,576 km of railroads (CNT/February 2017)
- ▶ 2,460 airdromes, with 63 national and international airports (CNT/February 2017)
- ▶ 37 public ports and 180 private port terminals (SEP/2016)
- ▶ 2.55 million barrels of oil a day (bbl/d) March (ANP)
- ▶ Freight transportation matrix in Brazil (CNT/February 2017):
 - » 61.1% road
 - » 20.7% rail
 - » 13.5% water (maritime and inland waterways)
 - » 4.2% pipelines
 - » 0.4% air
- ▶ Electricity consumption: 461,552 GWh (EPE/2017 - 12-months' consumption ending in February 2017)

HYDROELECTRIC
POWER PLANTS: **1,262** (Aneel/April 2017)

THERMAL POWER PLANTS: **2,949**

NUCLEAR POWER PLANTS: **2**

WIND FARMS: **424**

SOLAR PLANTS: **44**

SOURCES

- ▶ Projeto Crescer (English) <http://www.projetcrescer.gov.br/about-the-program>
- ▶ Petrobras activities (English) <http://www.petrobras.com.br/en/our-activities/performance-areas/oil-and-gas-exploration-and-production/pre-salt/>
- ▶ http://www.agenciapetrobras.com.br/Materia/ExibirMateria?p_materia=979101
- ▶ Oil auction, MME (Portuguese only) http://www.mme.gov.br/web/guest/pagina-inicial/outras-noticias/-/asset_publisher/32hLrOzMKwWb/content/cnpe-aprova-realizacao-da-3a-rodada-do-pre-sal
- ▶ Transportation data, CNT (Portuguese only) <http://www.cnt.org.br/Boletim/boletim-estatistico-cnt>
- ▶ Energy data, EPE <http://www.epe.gov.br/mercado/Documents/Resenha%20Mensal%20do%20Mercado%20de%20Energia%20El%C3%A9trica%20-%20Fevereiro%202017.pdf>

BRAZIL: YOUR GATEWAY TO LATIN AMERICA AND BEYOND

Brazil is a founding member of Mercosur, the South American Common Market, which is a free trade area and progressively consolidating customs union among Argentina, Brazil, Paraguay and Uruguay. Although admitted to the bloc in 2012, Venezuela is currently suspended due to its failure to comply with the pact's trade bylaws, such as the free circulation of goods, and major democratic principles.

In 2016 Mercosur had a combined gross domestic product of USD 3.2 trillion, which makes the group the fifth-largest economy in the world.

In December 2012, Bolivia signed an accession treaty to join Mercosur. The group currently has free trade agreements with Bolivia, Chile, Colombia, Ecuador and Peru, which are associate members of the bloc. Free trade agreements were signed with Israel in 2007, as well as with Egypt in 2011 (ratified in 2013). The agreement with the State of Palestine was signed in 2011 and is pending ratification.

Mercosur is currently negotiating a free-trade agreement with the European Union (EU), which, if successful, would create the world's largest free trade area.

Brazil is also a member of the Latin American Integration Association (ALADI), which aims to establish a pan-Latin American free trade area. At present, ALADI members extend tariff preferences to one another in specific sectors, with a view to progressively removing tariff barriers among ALADI members.

LABOR FORCE

Brazil is a populous country with an estimated workforce of 103 million people in 2017. According to the International Labour Organization (ILO), 69% of Brazilian workers are in the service sector, while 21% are in industry and 10% in agriculture.

In total, 52% of the women in Brazil are in the workforce, while 73% of the male population works.

SOURCE

► IPEA Data (Portuguese only)
<http://ipeadata.gov.br/Default.aspx>

BUSINESS ETIQUETTE

Business etiquette in Brazil is not particularly different from North America or Europe, but there are a number of aspects worth highlighting.

Brazilians tend to be very communicative and warm hosts, which extends to business relations. Brazilian culture is often informal outside the workplace, with kindness and good humor usually considered signs of good manners. In Brazil, business relations also depend heavily on interpersonal relations, so being communicative can be productive.

LANGUAGE

The official language in Brazil is Portuguese. Though it might sound similar to Spanish, the languages have considerable differences, which should be kept in mind in order to avoid misunderstandings. Brazilians particularly appreciate when their guests make an effort to speak some words in Portuguese, such as "obrigado" ("thank you").

Do not assume that Brazilians will be able to speak English or even Spanish, especially if you are outside major cities. According to a report by the British Council, only 5% of Brazilians over 16 claim to have some knowledge of the English language, but it is quite likely you will find capable people within companies who can help.

GREETINGS

It is customary for friendly business ties to lead to some physical contact, and it is common to shake hands with both women and men. Hugs are also common if the interlocutors already have some level of familiarity, but this is not likely to happen during introductions. International business attire is the normal dress code throughout Brazil in business meetings. Exchanging business cards is a standard practice.

REQUEST FOR A MEETING

When you first make contact with a company, it is acceptable to send an email, particularly if you are talking to a medium-sized or large company. However, it is better to make at least one phone call before the meeting to make sure everything is arranged and to get to know your contacts better.

It is better to let your business contacts choose the place for the meeting, but if the choice is up to you, bear in mind that in Brazil it is quite common to hold meetings in less formal environments, such as restaurants or cafes.

PUNCTUALITY

It is worth considering leaving ahead of time for a meeting or destination. Traffic jams in cities such as São Paulo and Rio de Janeiro can be quite heavy, especially during rush hour (between 7-10 am and 5-8 pm), so try to avoid travelling in these periods if possible. Do not interpret lateness on the part of your Brazilian contacts as a sign of disinterest or bad manners, as it is not rare for some people to arrive at meetings or appointments with minor delays. Remember that meetings can last long in Brazil, extending beyond their allotted time, so it might be worth considering not scheduling two meetings in a row.

TIME OF YEAR

Bear in mind that during special holidays, such as Christmas, New Year's and Carnival, things can run slower in companies. Because many people take advantage of these holidays to go on vacation or spend time with their families, some services are interrupted and some businesses even remain closed for up to an entire week. It is advisable to be prepared to attend to important business before these occasions or, if possible, wait until they have passed.

PUBLIC HOLIDAYS

NATIONAL PUBLIC HOLIDAYS

These are official celebrations scheduled by the federal government. Most businesses remain closed on these days.

- ▶ **January 1:** New Year's Day
- ▶ **April 21:** Tiradentes Day (Brazilian national hero)
- ▶ **May 1:** Labor Day
- ▶ **September 7:** Independence Day (celebrates Brazil's independence from Portugal in 1822)
- ▶ **October 12:** Our Lady of Aparecida (patron saint of Brazil)
- ▶ **November 2:** All Souls' Day
- ▶ **November 15:** Republic Day (celebrates the proclamation of Brazil as a republic in 1889)
- ▶ **December 25:** Christmas Day

General Elections are also national public holidays, but they take place on Sundays and only every two years the first and last weekends of October.

RELIGIOUS HOLIDAYS WITH CHANGING DATES

Celebrated like national holidays, these are regularly observed by the majority of the population and are national public holidays. Most businesses remain closed on these days.

- ▶ **February or early March:** Carnival and Ash Wednesday (Carnival falls on the Monday and Tuesday before Ash Wednesday, which in turn falls 46 days before Easter. Celebrated nationwide.)
- ▶ **Late March or April:** Good Friday and Easter Sunday
- ▶ **May or June:** Corpus Christi (falls on Thursday and Friday)

TRADITIONAL HOLIDAYS

Although not official, these are considered holidays by much of the population. Therefore, some businesses may close on these days.

- ▶ **December 24:** Christmas Eve
- ▶ **December 31:** New Year's Eve

OTHER BREAKS

Individual states and cities may have their own holidays, observed locally.

SOURCE

- ▶ National Holidays table (Portuguese only) <http://www.brasil.gov.br/governo/2016/11/confira-feriados-nacionais-e-pontos-facultativos-de-2017>

BRWA

BUSINESS
OPPORTUNITIES IN



AGRIBUSINESS

WITH MODERN, EFFICIENT AND COMPETITIVE AGRICULTURE, BRAZIL HAS BECOME ONE OF THE LARGEST AGRICULTURAL PRODUCERS AND EXPORTERS IN THE WORLD OVER THE LAST TWO DECADES. PRODUCTIVITY GAINS, MANAGEMENT EFFICIENCY, RESEARCH, INNOVATION AND TECHNOLOGICAL DEVELOPMENT HAVE REVOLUTIONIZED THE COUNTRY'S AGRIBUSINESS SECTOR.

LAND USE

Brazil has a suitable environment and conditions to increase its food production, combining the largest availability of fresh water on the planet and one of the largest arable land areas in the world, with 388 million hectares of fertile and productive land — 90 million of which are not cultivated.

According to the Food and Agriculture Organization of the United Nations (FAO), the world population is expected to grow by more than a third, or by 2.3 billion, between 2009 and 2050, reaching around 9.5 billion people and posing some tough challenges with regards to food supply.

Brazil is one of the few countries still capable of increasing its planted area, as it has 115 million hectares in available land according to the Brazilian Agricultural Research Corporation (EMBRAPA). Large portions of the cerrado (savannah or prairie region) are still available for cultivation, leaving considerable room for growth for the country's commercial agriculture sector.

Attempts are underway to increase land use. For instance, areas planted in soy, the single largest agricultural product in Brazil, are expected to reach 41.2 million hectares by 2025, up from 31.5 million in 2015 according to estimates by the Brazilian Institute of Geography and Statistics (IBGE).

Since 2000, when it was the 11th largest agricultural exporter, Brazil has come a long way: it is now the second-highest exporter of food (behind the United States) and has the third-highest volume in credit to agriculture, according to the 2015 data by the FAO.

LAND OCCUPATION IN BRAZIL

TYPE	RATIO
NATIVE VEGETATION ON UNDEVELOPED PUBLIC LANDS AND OTHERS	20%
PASTURES	19.7%
NATIVE VEGETATION IN CONSERVATION UNITS	17%
NATIVE VEGETATION ON INDIGENOUS LANDS	13%
NATIVE VEGETATION ON PRIVATE RURAL PROPERTIES, INLAND WATERWAYS AND SLOPED LAND	11%
OTHERS (WITH MINING, ENERGY, INFRASTRUCTURE, ETC.)	11.3%
CROPS AND PLANTED FORESTS	8%

Source: Embrapa

SUSTAINABILITY

FARMING MODEL

Farming in Brazil is an immensely diversified sector, ranging from small family holdings to huge commercial rural estates. The actual area of farms varies greatly depending on the region in which they are located. A considerable part of Brazilian agribusiness is organized in cooperatives, mainly found in the South.

Family farming also plays a strategic role, producing around 70% of the food consumed in Brazil, especially with regards to corn, milk and beans. There are 5 million family-owned agricultural businesses in the country, accounting for 33% of the total production value of Brazilian farms.

However, the largest international agribusiness companies have strong operations in Brazil. According to the Financial Times, Brazil has approximately 500,000 companies operating in the agribusiness sector. It is the third country in terms of number of enterprises, behind only the United States and France. The ecosystem encompassing domestic and foreign companies has created room for a competitive and diversified market and a hub for agribusiness products.

All subsectors have become integrated, creating enough space for large, medium and small companies not only in agricultural products, but also in processed foods, agricultural equipment, agrochemicals and biotech solutions.

Having sustainable and environmentally responsible agribusiness is a commitment which has been adopted by the Brazilian government.

The country has a national Forest Code, which regulates land use in Brazil and has introduced better tools for monitoring deforestation and enforcing environmental compliance, especially by establishing limits regarding the amount of land subject to deforestation. The newest version of the code went into effect in 2012.

Brazil has more than 60% of its territory in environmental preservation areas and the vigorous implementation of the Rural Environmental Registry (CAR) by the Ministry of Environment seeks to prevent farms and other rural private properties from increasing deforestation.

In 2010, the so-called 'ABC Plan' was adopted by the federal government to implement the consolidation of low carbon emissions in Brazilian agriculture while sustaining economic growth in the sector. From 2011 to 2020, BRL 197 billion (USD 62.8 billion) will be set aside for the plan, especially in the form of credit for producers.

The plan consists of seven programs, six of which are related to the development of sustainable production and mitigation technologies, with one program for climate change adaptation:

- ▶ **Program 1: Rehabilitation of Degraded Pastures** – recovery of 15 million hectares of degraded pasture
- ▶ **Program 2: Crop-Livestock-Forest Integration and Agroforestry Systems** – increase in the use of integrated crop-livestock-forestry systems, covering an area of 4 million hectares
- ▶ **Program 3: Tillage System** – expansion of the no-tillage system, covering an area of 8 million hectares
- ▶ **Program 4: Biological Nitrogen Fixation** – increase of biological nitrogen fixation in an area covering 5.5 million hectares of farmland, as a substitute for nitrogen fertilizers

- ▶ **Program 5:** Planted Forests – expansion of new forest plantations, covering an area of 3 million hectares
- ▶ **Program 6:** Treatment of Animal Waste – increase technologies used to treat 4.4 million cubic meters of animal waste
- ▶ **Program 7:** Adaptation to Climate Change

Under the ABC Plan, the Brazilian government seeks to reduce emissions by between 1.168 billion and 1.259 billion metric tons of CO₂ equivalent, based on total emissions forecast for the year 2020, which are expected to total 3.236 billion metric tons of CO₂ equivalent. Agriculture will be responsible for 22.5% of the targeted reduction.

INCENTIVES

The Brazilian government, by way of the Ministry of Agriculture, Livestock and Food Supply, has several incentive programs for agriculture and livestock, from credit lines to the enhancement of best practices and procedures.

Financing for the 2016/2017 cycle of crops (Plano Safra) reached BRL 185 billion (USD 59 billion) for the period, in credit to producers to spend on costs and commercialization. This figure is expected to surpass BRL 200 billion (USD 63.8 billion) for the 2017/2018 cycle.

Pronamp, the government program intended to support medium-sized producers, received a total of BRL 20 billion (USD 6.4 billion) for the 2016/2017 cycle (for both investments and costs and commercialization), while Inovagro, intended for technological innovation, received over BRL 1.2 billion (USD 382 million) for investments. Both are coordinated by BNDES.

The Agro+ Plan comprises a range of measures intended primarily to increase the Brazilian share of the international market. Some of the biggest improvements are the standardization of

procedures, improved access to information and the updating of registries, as well as the simplification of export/import processes.

▶ Gross value of Brazilian agriculture and livestock

YEAR	IN BILLIONS USD	IN BILLIONS BRL
2012	149.8	469.8
2013	162.6	510
2014	169.1	530.4
2015	171.6	538.1
2016	168.4	528.2
2017	175.5	550.4

Source: Ministry of Agriculture, Livestock and Supply

SOURCES

- ▶ FAO, Agricultural Land (English): <http://www.fao.org/faostat/en/#country/21>
- ▶ Embrapa, available land (Portuguese only)
- ▶ Embrapa, Land occupation (Portuguese only): <https://www.embrapa.br/busca-de-noticias/-/noticia/14129990/ministro-da-agricultura-destaca-dados-da-embrapa-na-abertura-do-gaf-2016>

AUTOMOTIVE

The automotive industry is the main economic sector in Brazil, accounting for 22% of its industrial GDP, which corresponds to 4% of the total GDP. Brazil is the 7th-largest market for automobiles in the world and ranks 9th in vehicle production.

The Brazilian automotive industry produced 2.1 million vehicles and sold 1.8 million units in 2016. Despite the current economic downturn, recovery is expected to begin in 2017, as the economy gets back onto the path to positive development.

As the Brazilian currency, the Real (BRL), has weakened against the dollar over recent years, local manufacturers chose to increase production for sale on the international market. Thanks to this strategy, exports of vehicles increased by almost 25% in 2016, rising to more than half a million vehicles.

The improvement in exports is also a result of the efforts made by the government to negotiate new free trade agreements and increase sales to countries with which Brazil has good business ties, such as Argentina, Colombia, Mexico and Uruguay.

Brazil has a highly-developed market, with participation of the world's leading motor vehicle manufacturers across a wide range of segments,

including light commercial vehicles, buses, trucks and agricultural machinery. The Inovar-Auto policy, the national automotive regime launched in 2012, helped to attract even more producers to Brazil, with the market reaching 31 original equipment manufacturers (OEMs) with 67 local production plants in 2016. Since Inovar-Auto, newcomers and local players have announced more than BRL 40 billion (USD 12.8 billion) in investments to be concluded by 2024, including investments in new segments, such as premium passenger cars, and from different host countries, such as South Korea and China.

The manufacturers represented by Anfavea, the Brazilian Association of Motor Vehicle Manufacturers, are: AGCO (Massey Ferguson), Agrale, Audi, BMW, Caminhões Metro-Shacman, Caoa, Caterpillar, CNH (Case and New Holland), DAF, Fiat Chrysler Automotive, Ford, General Motors, Honda, HPE, Hyundai, International, Iveco, Jaguar and Land Rover, John Deere, Mahindra, Man (Volkswagen Caminhões e Ônibus), Mercedes-Benz, Nissan, Peugeot Citroën, Renault, Scania, Toyota, Volkswagen and Volvo.

The automotive industry also has a strong retail network in Brazil — there are currently over 5,500 authorized resellers throughout the country.

BRAZILIAN AUTOMOTIVE INDUSTRY

► COMPANIES

VEHICLES AND AGRICULTURAL AND HIGHWAY
CONSTRUCTION MACHINERY

ASSEMBLERS: 31
AUTO PARTS: 616
DEALERS: 5,592

► PLANTS

INDUSTRIAL UNITS: 67
PRODUCING STATES: 11
PRODUCING CITIES: 54

► PRODUCTION CAPACITY 2016

VEHICLES: 5.05 MILLION
AGRICULTURAL AND HIGHWAY CONSTRUCTION
MACHINERY: 109,000

► REVENUE 2015

INCLUDING AUTO PARTS
USD 59.1 BILLION

► INVESTMENTS 1994/2012 INCLUDING AUTO PARTS

USD 68.0 BILLION

► ASSEMBLED VEHICLES (ACCUMULATED)

75.8 MILLION (1957/2016)

► AGRICULTURAL AND HIGHWAY CONSTRUCTION MACHINERY (ACCUMULATED)

2.6 MILLION (1960/2016)

► FOREIGN MARKET 2016 INCLUDING AUTO PARTS

EXPORTS: USD 17.9 BILLION
IMPORTS: USD 17.8 BILLION

► EMPLOYMENT DIRECT AND INDIRECT

1.3 MILLION PEOPLE

► GDP SHARE 2015 AUTOMOTIVE CHAIN

INDUSTRIAL: 22.0%
TOTAL: 4.0%

► TAX GENERATION 2015 (IPI, ICMS, PIS/COFINS, IPVA)

VEHICLES: USD 39.7 BILLION

► WORLD RANKING 2015 VEHICLES

9TH LARGEST PRODUCER
7TH LARGEST DOMESTIC MARKET

SOURCE

► Brazilian Automotive Industry Year Book 2017/Anfavea

INVESTMENTS AND PRODUCTION IN THE BRAZILIAN AUTO SECTOR

YEAR	INVESTMENTS (MILLION USD)	PRODUCTION (UNITS)*
2000	1,745	1,605,848
2001	1,825	1,675,522
2002	1,042	1,633,790
2003	748	1,684,715
2004	820	2,124,177
2005	118	2,357,172
2006	1,572	2,403,680
2007	2,136	2,825,276
2008	3,197	3,050,631
2009	2,721	3,076,000
2010	3,872	3,382,163
2011	5,339	3,417,782
2012	5,347	3,402,963
2013	-	3,712,386
2014	-	3,146,386
2015	-	2,429,421
2016	-	2,156,356

*Assembled vehicles, domestic sales and exports

Source: Anfavea

ENGINEERING AND DESIGN

Brazil is a global platform for compact and compact premium vehicle development and production. Some examples of local R&D centers include:

► GM has a dedicated engineering and design team in São Caetano do Sul, in the State of São Paulo, as part of a global design network that integrates their Korean, Chinese and US offices. The FCA (Fiat Chrysler Automotive) group has only two design centers in the world for the Fiat brand, located in Italy and Brazil. In the city of Betim, in the state of Minas Gerais, FCA has an engineering center with over 1,500 engineers. In 2015, FCA also opened a manufacturing plant for Jeep and an R&D center in Goiana, in the Northeastern state of Pernambuco. Ford and Volkswagen are other international brands that have their local design and engineering teams engaged in developing vehicles for emerging markets. Japanese companies also began carrying out research and development in Brazil over the last few years. In 2015, Nissan established “Nissan Design America Rio” in Rio de Janeiro, with the task of researching car materials and styles with an eye on the domestic market. Toyota chose São Bernardo do Campo, São Paulo, for its fourth applied research center in the entire world, after Japan, the USA, Europe and Thailand.

Brazil is also a global platform for the development of flex fuel vehicles, creating technologies such as the electronic cold start. In 2015, over half of the total Brazilian fleet was run on biofuels.

AUTO PARTS

Brazil has a strong automotive supply chain with significant operations, including local plants from the main tier-one global auto parts suppliers. This segment has also witnessed an increase in investment for the development of customized auto parts in partnership with automakers, as original equipment manufacturers (OEM).

The auto parts industry manufactures an extensive list of products, such as car bodies and cabs, electrical and electronic components, suspension and steering systems, brakes, engines, transmission systems and so on.

In 2016, the 616 auto parts companies operating in Brazil employed over 170,000 workers. The state of São Paulo, where the history of the country's auto industry began back in the 1950s, is home to the main cluster for both auto parts and vehicles facilities. In recent years, however, investments have been spread around more to include other regions, including the Northeast and South.

FEDERAL INCENTIVES

Since 2012, Inovar-Auto has been the main program guiding the automotive industry in Brazil. Created by the government as a counter-cyclical policy after the international crisis of 2009, Inovar-Auto offers fiscal incentives for local manufacturers that comply with requirements related to investments in R&D, engineering, energy efficiency and local manufacturing steps. The tax benefits are proportional to the companies' expenditures on the acquisition of strategic inputs (auto parts and tooling) from the domestic market and with R&D activities, among others. The program has attracted OEMs to Brazil, as well as investments for expansion projects.

With the program due to expire at the end of 2017, in April 2017 the federal government presented a proposal for a new program to span the next 13 years, called *Rota 2030* (Route 2030). It aims at establishing a long-term policy, with clear and predictable rules, to assure security for investors and strengthen the competitiveness of the Brazilian automotive industry on a global level.

SOURCES

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RENEWABLE ENERGY & ENVIRONMENTAL SOLUTIONS

Brazil is the 8th-largest producer of electricity in the world, generating 560 billion kilowatt hours of electricity in 2016, according to the International Energy Agency (IEA). This puts Brazil among the powerful top-10 electricity leaders – together, these 10 countries, led by China and the United States, account for two-thirds of the world’s electricity output.

Brazil is favored by a vast and diversified territory – 80% of the country’s power generation capacity comes from renewable sources, compared to the global average of only 23%. Hydropower alone comprises 65% of Brazil’s entire electric power capacity, according to the federal energy planning company EPE.

Alternative renewable sources, such as wind, solar and biomass, still have a relatively small (but growing) share: around 15% in 2015. However, these sources are the target of several government programs, including its main infrastructure programs,

BNDES’s special credit lines and the National Energy Plan (PNE) — the guideline for energy expansion drafted by EPE, the branch for energy studies of the Ministry of Mines and Energy (MME).

EPE’s plan forecasts an increase of 162% in the capacity of alternative energy sources by 2024 and expects their share of the national matrix to reach 53% by 2040. Many of those targets are put into practice by federal concessions determined by public sales, regularly held by the government (schedule and requests for proposals can be found at www.aneel.gov.br/leiloes) (Portuguese only).

► **Brazil’s energy matrix, in percentage (%) of total**

SOURCE	2016	2024 ESTIMATE
HYDRO	68.6%	56.7%
ALTERNATIVE ENERGY*	16.2%	**27.3%
THERMO***	14.7%	14.4%
NUCLEAR	2.6%	1.6%

*Biofuel, Wind,

** Includes Solar

***Natural Gas, Industrial Gas, Oil and Coal

Source: Ministry of Mines and Energy/EPE

MAIN PROGRAMS AND OPPORTUNITIES

PROINFA

(INCENTIVE PROGRAM FOR ALTERNATIVE ENERGY)

Proinfa was created in 2003 and provides special benefits to promote clean and renewable energy generation, namely for wind, small hydroelectric plants (PCHs) and biomass plants. It guarantees acquisition and commercialization of generated power by the state-owned energy company Eletrobras. The program also creates conditions for special financing lines to be created by BNDES to subsidize pre-approved projects.

BNDES

The Brazilian Development Bank offers special conditions for alternative energy projects. In 2017, these sources were included among the highest priorities defined by the BNDES Finem, the Bank's new framework for subsidized loans. It offers eligibility for up to 80% of the total investment to be supported by the Bank. BNDES Inovação (for innovation) and BNDES Indústria (for industry) are other available credit lines for which energy projects are eligible.

PUBLIC SALE

Most of Brazil's energy projects (generation, transmission and distribution) are planned by the government and opened to private enterprise through public sales. These auctions are managed by Aneel, the National Regulatory Agency for the electricity market. In April 2017, for example, 7,085 kilometers of transmission lines divided into 35 exploration lots were sold to almost 20 different companies and consortia. Added together, their investments should surpass BRL 12.7 billion (USD 4 billion) over the coming years. Alternative energy has had a growing share of these projects, including exclusive public sales.

WIND ENERGY

Wind power generation was practically nonexistent in Brazil in 2009, when the first national wind projects began to be auctioned. Since then, it has seen exponential growth and today the country has 429 wind farms and a total capacity of 10.7 GW in 2016, according to the Global Wind Energy Council (GWEC). This accounts for 7% of Brazil's energy matrix and has made the country the world's 9th-largest in terms of wind capacity.

With almost 7,500 kilometers of coastline, Brazil has huge potential for generating wind energy, especially on the Northeastern coast, where there is wind all year round and many farms have already been built.

► Wind power capacity in Brazil, in megawatts

YEAR	TOTAL MEGA-WATTS
2005	27.1
2006	235.4
2007	245.6
2008	341.4
2009	600.8
2010	932.4
2011	1,535.1
2012	2,529.0
2013	3,484.1
2014	5,979.6
2015	8,733.4
2016	10,747.3
2017*	13,205.0
2018*	16,137.5
2019*	16,938.6
2020*	17,257.2

*Estimates
Source: Abeeolica

SOLAR ENERGY

Photovoltaic parks' share of total Brazilian energy capacity is expected to grow significantly over the coming years, as incentives stimulate investments and technology prices go down. Today, solar parks generate only 27 megawatts, accounting for 0.02% of the national matrix. By 2024, the government plans to increase that figure to 7,000 megawatts (3.3% of the total matrix, i.e. sources of power generation). Investments are estimated to reach BRL 125 billion (USD 39.9 billion) by 2030. The federal program "Luz para Todos" ("Electricity for All"), created to universalize electricity access in the country, has installed photovoltaic panels in isolated communities and is a major purchaser of this technology.

In 2015, a new resolution by Aneel (687/2015), an improvement on resolution 482/2012, represented an important step towards the proliferation of solar energy and energy self-production in Brazil. It reformulated the compensation system for distributed energy, allowing domestic and small photovoltaic facilities (including businesses and cooperatives) to exchange their power generation for proportional discounts on their energy bills with their local distribution company.

BIOFUELS

With rich natural resources and a strong agricultural industry, Brazil is an ideal market for biofuels and a world leader in the sector: it is the second-largest producer of this kind of clean fuel in the world, behind only the United States. According to ANP, the National Agency responsible for fuel regulation, 18% of all fuel consumed in Brazil today comes from renewable sources, mainly ethanol and biodiesel. And, as the demand for green gas emissions controls toughens worldwide, Brazil has also consolidated its potential as a major exporter.

Sugarcane, for ethanol, and vegetable oil, for biodiesel, are the main sources for Brazilian biofuels. Ethanol output is today more than twice what it was in the 1990s, with **30,000,000** cubic meters being produced in 2016. Biodiesel, which was incipient in Brazilian refineries at the turn of the 21st century, increased production from **736** cubic meters in 2005 to **3,801,340** cubic meters in 2016, a **five-thousand** fold increase in a single decade.

Some specific characteristics of the domestic market have allowed for this expansion, starting with the country's automotive industry: Brazil is a world leader in flexible-fuel vehicles, with almost 90% of the cars produced in the country today being capable of both gasoline and ethanol consumption. In 2003, when the first of these vehicles arrived on the market, they were only 2.5% of total production.

Public policies have also had a major role, providing incentives and special programs beyond production, as well as stipulating a minimum level of market consumption. Required minimum ethanol dilution in gasoline was raised to 27% in 2015 by ANP. Biodiesel mixture in standard diesel became a requirement in 2008, with a 2% minimum and a policy of gradual increases over time. At the beginning of 2017, the minimum biodiesel mixture required throughout Brazil was 8%, a figure that will increase to 10% by 2019, as determined by **ANP**¹, and may be raised to 15% in the following years.

Brazil's biofuel production is concentrated in the Southeast and Northeast regions, with the majority of sugarcane farms and mills located in São Paulo.

Endnotes:

1. Share of biodiesel diluted in diesel is defined by Law 13,623/2016

► Biofuel production over time (in thousands of cubic meters)

YEAR	PURE BIODIESEL B100	ETHANOL
2005	0.74	15,821
2006	69.00	17,844
2007	404.33	22,527
2008	1,167.13	27,526
2009	1,608.45	25,691
2010	2,386.40	27,376
2011	2,672.76	22,682
2012	2,717.48	23,226
2013	2,917.49	27,476
2014	3,422.21	28,480
2015	3,937.27	30,232
2016	3,801.34	28,692

Source: ANP and Unica

SOLID WASTE

The total solid waste generated by urban residents in Brazil increased 20%, from 160,000 tons a day in 2012 to almost 200,000 tons in 2015, according to the Brazilian Association of Public Cleaning Services and Waste Management Companies (Abrelpe).

Much has been improved throughout this period, but there is still plenty to do. Though over 90% of this waste is collected, 41% is still disposed of in conditions deemed inadequate, such as open-air dumps and inappropriate landfills (with no treatment or waterproofing of soil). The government has made a serious commitment to improving these figures, which includes special regulations, tougher supervision and the closing of municipal open-air dumps that pose health and environment risks.

In 2010, the sector, which had no formal regulation until then, became subject to the National Policy on Solid Waste (PNRS), which has been guiding its activities since. The PNRS provides for the collection, treatment and disposal of household and industrial waste and

sets important goals regarding ending open-air disposal, prevention and reduction of waste generation and promoting reverse logistics. The program also regulates waste-to-energy activity, offering counterparts and stimulating it throughout the country.

With tighter rules, municipal governments (primarily responsible for urban waste management) began an intensive effort to come into compliance, which has since boosted investment and service opportunities. In 2015, according to Abrelpe, the sector employed over 350,000 people and generated BRL 27.5 billion (USD 8.8 billion) in revenue.

Current market needs include, for example, product design for waste minimization; anaerobic digestion systems; plasma arc gasification technologies; automatic mechanical sorting facilities for recyclable materials; and program design for integrated municipal waste management strategies.

For recycling activities, investment should be focused on logistics and infrastructure for the separation and treatment of sensitive materials such as batteries and electronic waste. In the area of waste treatment, investment in new treatment facility capacity and capabilities will be prioritized, including the conversion of open dumps into sanitary landfills with gas collection and combustion and other upgrades in waste-to-energy facilities, providing the opportunity is environmentally, technically and economically feasible.

SOURCES

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OIL & GAS

“Due to its pre-salt development plans, growth (in oil and gas production) from Brazil is expected to last for many years.” Those words come from the

Organization of Petroleum Exporting Countries (OPEC) in its World Oil Outlook 2016. According to OPEC’s projections, Brazilian output of oil and natural gas liquids (NGL) is expected to rise from 2.5 million barrels a day in 2016 to 3.6 million in 2021 and to roughly 4.0 million from 2025 onward. This will consolidate the country’s position as the third-largest oil and gas producer among non-OPEC countries, behind only the U.S. and Russia.

On the other hand, long-term demand for these fuels will also steadily increase as emerging and new emerging nations develop their economies and adjust their needs, including Brazil itself. Worldwide crude oil consumption

is projected by OPEC to grow from current levels of 93 million barrels a day to 109.4 million in 2040. This means that the Brazilian oil and gas industry will be a promising sector for a long time, for both supply and demand.

This positive outlook is completed by the announcements of big investments, important macroeconomic reforms and the fast-growing exploration of the offshore pre-salt oil layer discovered in 2007. Petrobras’s business plan for 2017-2021 projects USD 74.1 billion in investment in areas such as exploration, maintenance and logistics. Almost USD 40 billion will be allocated to pre-salt exploration areas.

► **Total oil production (in thousands of barrels)**

YEAR	TOTAL	PRE-SALT LAYER
2006	628,797	0
2007	638,018	0
2008	663,275	25,587
2009	711,883	6,756
2010	749,954	16,317
2011	768,471	44,394
2012	754,409	61,488
2013	738,715	110,538
2014	822,930	179,820
2015	889,667	280,055

Source: ANP

NEW REGULATIONS

Between 2016 and 2017, the government changed important regulations for oil and gas activities in order to increase the private sector's presence in Brazilian oil fields and attract new investments beyond Petrobras.

Beginning in 2010, when the new "Oil Law" came into **effect**^I, the state-owned oil company was entitled to at least a 30% stake in consortia for any new pre-salt field concessions. The Oil Law also established a minimum of national content for acquisitions by operating companies. Now, other companies have the possibility of owning the entirety of the fields. Petrobras continues to be awarded preference in the bidding processes and can claim its 30% share for the first 30 days. But if it refuses, the block will be offered fully to other companies in a competitive **auction**^{II}. As for the policy of national content, requirements were reduced, on average, by half, to a margin between 18% and 50% of input.

The new rules will apply to all future bidding processes. Four pre-salt areas (Pau Brasil, Peroba, Alto de Cabo Frio-Oeste and Alto de Cabo Frio-Central) are due to be put up for bid by the second semester of 2017. In April 2017, the Brazilian government announced a three-year schedule for bidding rounds (2017-2019) in order to create a more predictable business environment and to allow companies to better plan their investments in Brazil.

This is a very unique moment to invest in the Brazilian oil and gas industry, which includes opportunities for companies of all sizes and types. The bidding rounds are expected to attract new oil and gas companies to Brazil and the development of the new fields will create opportunities for the entire supply industry.

Oil and gas bidding processes in Brazil are intermediated by the ANP, the Brazilian regulatory agency with jurisdiction, and are updated at: www.brasil-rounds.gov.br (available in English).

Endnotes:

I. Law 12,351/2010


II. Change implemented by Law 13,364/2016

LOCAL CONTENT


To encourage investments, the Brazilian government has put into effect a new local content policy for the oil and gas industry. With more freedom to negotiate with suppliers, competitiveness and production will increase for companies that win the next exploration auctions.

Before, a number of goods and services produced exclusively in Brazil had to be hired/contracted, which made it harder to obtain certain products. Besides, the rules were considered too complex. Now, five local content macro-groups have been established – for onshore areas, compulsory local content has dropped to 50%; for offshore areas over 100 meters deep, the percentages are: 18% for exploration, 25% for well construction and 40% for collection and disposal systems. Stationary production units (EPU) are required to have 25% local content.

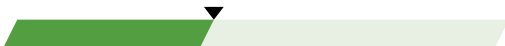
18%
exploration



25%
well construction



40%
collection and disposal systems



25%

Stationary production units (EPU) are required to have 25% local content



NATURAL GAS

In 2016, the Brazilian Government launched the “Gás para Crescer” initiative, which aims to improve the regulatory framework of the gas industry in Brazil in order to make it more attractive for investment. The new guidelines are still under analysis, but they are expected to be based on the following premises: adoption of international good practices; investments attraction; increased competition; diversity of players; greater dynamism and access to information; active participation of agents and respect for contracts.

ONSHORE FIELDS

Brazil produces oil mostly from offshore fields. But early in 2017, the government announced the REATE program, in order to triple onshore production by 2030 to 500,000 barrels of oil a day by creating synergies between producers, suppliers and financial institutions. The revitalization of the onshore production may also bring good opportunities for new companies to establish a presence in Brazil.

SOURCES

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- ▶ ANP: Bidding Processes (English) <http://www.brasil-rounds.gov.br/>
- ▶ Brazilian Ministry of Mines and Energy (Portuguese only) http://www.mme.gov.br/web/guest/pagina-inicial/outras-noticias/-/asset_publisher/32hLrOzMKwWb/content/gas-natural-tera-novas-diretrizes-com-medidas-do-gas-para-crescer-

► Petrobras daily oil production in 2017, in millions of boed*

TOTAL	PRE-SALT
2.82	1.53

*Barrels of oil equivalent per day

Source: Petrobras monthly bulletin (February/2017)



INFRASTRUCTURE & LOGISTICS



Transportation infrastructure is a constantly recurring priority in new government policies. Investments in infrastructure have increased greatly over the past decade and reached a completely new level — jumping from BRL 3.9 billion (USD 1.24 billion) in 2005 to BRL 15.8 billion (USD 5 billion) in 2014, taking into account only federal disbursements for airports, roads, railways and waterways. In 2016, these investments totaled BRL 12.3 billion (USD 3.9 billion) according to data gathered by the National Confederation of Transport (CNT).

Infrastructure investments have shown a long-term growth trend, supported by public programs such Projeto Crescer, a full schedule of future concessions and the huge demand still to be met.

Brazil is one of the world's largest consumer markets and a major exporter of agricultural products and commodities, including oil, iron ore,

meat, chicken, soybeans, oranges, aluminum and coffee. Manufactured goods such as automobiles, airplanes and capital goods are also an important part of the country's exports. This means that Brazil, with its area of 8.5 million square meters, depends heavily on logistics and transportation networks to guarantee its competitiveness and continue growing.

► Federal infrastructure investments for transportation (in billions of BRL)

YEAR	TOTAL INVESTED (USD)	TOTAL AVAILABLE (USD)	TOTAL INVESTED (BRL)	TOTAL AVAILABLE (BRL)
2005	1.24	2.55	3.9	8.0
2006	1.85	2.58	5.8	8.1
2007	2.30	4.40	7.2	13.8
2008	2.55	4.94	8.0	15.5
2009	3.60	5.26	11.3	16.5
2010	4.98	6.41	15.6	20.1
2011	4.98	6.60	15.6	20.7
2012	4.37	8.99	13.7	28.2
2013	4.53	6.60	14.2	20.7
2014	5.04	7.02	15.8	22.0
2015	3.51	5.07	11.0	15.9
2016	3.92	3.70	12.3	11.6
2017	-	4.72	-	14.8

Source: CNT/March 2017 report

PUBLIC PROGRAMS AND OPPORTUNITIES

Aware of the possibilities, the government has launched some important programs that were

essential to this boost in investment and continue to provide the main guidelines and incentives for infrastructure development in Brazil. They establish several mechanisms for investment in logistics, energy, telecommunications, housing and urban development, counting on public investments, concessions, public-private partnerships (PPPs) and privatization.

SPECIAL TAX REGIME FOR INFRASTRUCTURE DEVELOPMENT (REIDI)

Created in 2007 by Law 11,488/2007, this tax regime allows companies with infrastructure projects approved by the authorities to apply for social tax exemptions (PIS and Cofins) on the acquisition of intermediate goods and services. Transportation, energy, irrigation and sanitation projects are eligible. Exemptions are valid for 5 years.

NATIONAL PLAN OF LOGISTICS AND TRANSPORTATION (PNLT)

Brazil has an extensive transportation network made up of highways, airports, ports, railways and waterways, but most journeys in the country are made by road. As a result, the government created the PNLT, bringing public and private projects together to promote alternative modes of transport and balance Brazil's transportation network. The plan forecasts that by 2025, with the new distribu-

tion of the Brazil's transportation system, energy efficiency will be 38% higher, fuel consumption 41% lower and CO₂ emissions can be cut by 32%, in addition to an expansion of freight capacity from 851 ton kilometer (tkm) to 1,510 tkm.

INVESTMENT PARTNERSHIPS PROGRAM (PPI)

Announced at the end of 2016, the PPI, also known as "Projeto Crescer" ("Growing Project"), was created by the federal government to promote private participation and foster a new cycle of infrastructure investment. In its first phase, 34 assets and services were listed to be auctioned by 2018, including the construction, management or commercial exploration of airports, port terminals, electric power plants, oil and gas fields, mining areas and others. The project will have an additional second phase, including 55 more projects. In total, these projects represent more than BRL 45 billion (USD 14.3 billion) according to the government's forecast. New financing conditions were created specially by BNDES, the Brazilian development bank, in order to support the project.

SOURCES

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- ▶ CNT Statistics bulletin (February 2017) <http://www.cnt.org.br/Boletim/boletim-estatistico-cnt>
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- ▶ PPI projects portfolio summary (March 2017) www.ppi.gov.br
- ▶ PPI projects map (in English) <http://www.projetcrescer.gov.br/projects>

TRANSPORT INFRASTRUCTURE AND SERVICES

As a continental country, Brazil has vast networks of all modes of transportation. However, its transportation matrix is still unbalanced, with roads accounting for more than 60% of domestic traffic, leaving several areas in need of improvement. The government has shown itself to be committed to correcting this imbalance and there will be a number of opportunities for investment for a long time in Brazil, ranging from supply chain and services to bidding for construction and operation of new enterprises.

► Current freight transportation in Brazil

TYPE	%
ROAD	61.1%
RAIL	20.7%
WATER	13.5%
PIPELINES	4.2%
AIR	0.4%

Source: CNT/February 2017

► Projections for freight transportation growth in Brazil

TYPE	2019	2031
ROAD	44%	38%
RAIL	36%	43%
WATER	14%	15%
PIPELINES	5%	4%

Source: National Plan for Logistics and Transportations (PNLT)/ Ministry of Transportation (2012)

PORTS

Ports are an essential part of Brazil's business infrastructure and its main connection to the international market – they handle 90% of the country's imports and exports. In the past ten years, total cargo passing through Brazilian ports increased by 70%, to 1 billion tons in 2016.

In June 2013, a new Ports Law (Law 12,815/13) came into effect and was a watershed moment for the sector. It allowed and regulated private participation in the management of Brazilian ports through "Private-Use Terminals" (TUP) – terminals separated from public ports that can be owned and used by the private sector. According to the Ministry of Transportation, more than 70 new TUPs have been authorized since then and, by the end of 2016, 67 more were under analysis, which could translate into BRL 24 billion (USD 7.65 billion) in new investments.

The long-term projects planned by the government for port infrastructure are estimated to generate BRL 51 billion (USD 16.3 billion) in investments through 2042, following the framework established by the National Plan for Port Logistics (PNLP). Ports and terminals are also a priority of the PPI, with 13 strategic terminals initially listed to be put up for public sale by 2018.

► National Plan for Port Logistics (PNLP), 2015-2018 investments

TYPE	IN BILLIONS OF USD	IN BILLIONS OF BRL
TERMINAL BIDDING	5.18	16.24
NEW PRIVATE TERMINALS (TUP)	6.24	19.57
CONTRACT RENEWAL	3.54	11.11
DREDGING	1.36	4.26
TOTAL	16.33	51.19

AIRPORTS

Brazil has the largest aviation market in Latin America and one of the largest in the world. About 110 million passengers transit through Brazilian airports every year. Domestic and international airlines operating in Brazil offer flights to more than 120 destinations around the world and each year there are more than 150,000 international flights and 940,000 domestic ones.

In 2012, the Brazilian government auctioned three of the country's busiest airports (Brasília, São Paulo and Campinas) to the private sector for BRL 14.5 billion (USD 4.62 billion). Brazil's airports are primarily managed by Infraero, the state-owned company for aviation infrastructure, and these were the first concessions involving over 60 airports currently managed by the company. The model has proved to be efficient and has been definitively adopted as an alternative. In 2017, airports located in four state capitals were auctioned for BRL 3.72 billion (USD 1.2 billion).

Foreign capital in Brazilian airlines is currently limited to a 20% share, but the government has indicated intent to eliminate this limitation, allowing a foreign share of up to 100%, which may open up entirely new opportunities.

ROADS

As the fifth-largest country in the world by land mass, it is not surprising that Brazil has one of the world's largest road networks, with approximately 1.7 million kilometers of roads. Currently, however, only 13% are paved, which has a strong negative impact on the movement of people and cargo in a country where 60% of all freight transportation is by road. This means that not only must Brazil develop other means of transportation, but also that it urgently needs to improve its road network.

In 2016 alone, BRL 8.5 billion (USD 2.71 billion) were invested by the federal government in the maintenance, improvement and expansion of highways, in addition to another BRL 2.5 billion (USD 800 million) invested by private companies, which currently manage 20,000 kilometers of federal and state roads.

Several investment and highway concession auctions have been held in the past and they will continue for several years to come. The government's privatization program has three lots due to be auctioned in the second semester of 2017, which should raise BRL 13.8 billion (USD 4.4 billion) in initial investments alone. The upcoming public sales will resume federal concession programs for highways, which have been on hold since 2013. At least other four roads are in the pipeline to be privatized before 2019.

RAILWAYS

Railways were once one of the most important means of transportation in Brazil. Throughout the 20th century, however roads and the automotive industry became core engines for the economy, following international trends. This is now something Brazil wants to change, with a number of investments made in expanding railroads.

Brazil has the most extensive rail network in Latin America, but for a country of its size, it is not enough: there are only 3.6 kilometers of railway for every 1,000 square kilometers of area, far behind countries such as the United States (32 km), India (23 km), China (20.5 km) and Argentina (13.5 km).

There are currently 30,500 kilometers of railroads, which carry 20% of all freight transportation in Brazil, according to the CNT. By 2031, the framework designed by the Ministry

of Transportation forecasts this share to be around 40%.

Private enterprise has been a part of the Brazilian rail network since 1997, when the former state-owned company RFFSA was dissolved and privatized. Back then, Brazil had even fewer railroads (16,660 kilometers), and their new private partners have since invested BRL 52 billion (USD 16.6 billion) to expand and improve the network, according to the National Association of Railway Transporters (ANTF).

There are currently 3,600 kilometers of new railroads being built by the private and public sectors, according to the Ministry of Transportation's 2016 report. By 2018, at least three existing railways are scheduled to be auctioned to the private sector.

SOURCES

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INNOVATION AND R&D

Brazil is a supportive country when it comes to research, development and innovation. In 2016, the country spent 1.4% of its GDP on R&D and is currently pursuing the goal of increasing that figure to 2%, on a par with other countries which have excelled in this area, such as South Korea and Germany.

The Brazilian government is currently the biggest sponsor of innovation in the country, primarily through the Funding Authority for Studies and Projects (FINEP), but there are also bills in the Brazilian Congress which would provide tax exemptions for individuals and companies that donate money to basic scientific research projects, which may encourage the participation of the private sector.

Launched in 2013, FINEP's BRL 32.9 billion (USD 10.5 billion) Inova Empresa ("Innovate Business") program seeks to promote innovation in research institutions and companies operating in industries such as defense, agriculture, energy, health, sustainability and telecoms, using a variety of market instruments, including credit, economic subsidies and grants, as well as direct investments. The funding authority also has, among its many initiatives, a Direct Investment Program with BRL 500 million (USD 159.4 million) available for investments through minority stake acquisitions in companies that promote innovation.

Brazil also excels in R&D for agriculture. The Brazilian Agricultural Research Corporation (EMBRAPA) is an example of a pioneering institution considered a point of reference in research and development in agricultural technologies, particularly for food production in tropical climates.

In order to continue expanding Brazil's scientific capabilities, the country is also investing in education, primarily by way of the National Council for Scientific and Technological Development (CNPq), one of the federal agencies that provides scholarships to students in Brazil and abroad. In 2015, almost 79,000 scholarships were given to students, from bachelor through PhD levels in all areas of study. In 2016, to expand its reach, the agency's budget was increased from BRL 1.38 billion (USD 440 million) to BRL 1.89 billion (USD 602 million), according to most recent data.

Brazil has made substantial efforts to reduce the average time for the assessment of patents, sharing information with intellectual property agencies in the United States, Japan and in the European Union. Federal and state governments will also enhance coordination for incentives for innovation, providing better information to investors.

Brazil has also several technology hubs, with more than **900** companies and **32,000** people employed.

HEALTHCARE & LIFE SCIENCES

Brazil is full of potential for investors looking to diversify investments in life sciences, with a market that offers both scale and potentially robust growth rates for the medium and long term. The fundamentals driving the market in the life sciences sector include the size of Brazil's population and consumer market, growing healthcare expenditures in both public and private healthcare services and the gradual shift to an aging population.

Being one of the world's largest economies, with the 5th-largest population on the planet (over 207 million people), Brazil has population growth of 0.9% per year. The United Nations estimates that the elderly population in Brazil will surpass the number of children and adolescents by the year 2030, before the same phenomenon happens on a worldwide scale by 2045.

Healthcare expenditure accounted for 9.5% of Brazil's GDP in 2015. Spending in this sector has grown by over 50% from 2006, reaching USD 166.8 billion. This makes Brazil the 9th-largest healthcare market in the world. Furthermore, from 2016 to 2025, 21% growth (in real terms) is expected, which would make Brazil the 5th-largest market, overtaking France and the United Kingdom, according to Business Monitor International.

HEALTHCARE SYSTEM

The country has both public and private healthcare systems. The public universal system, called SUS (Sistema Único de Saúde), accounts for almost half of total health care spending and serves between 60% and 80% of the population.

Brazil is the only country with a population of more than 100 million people that provides universal and free healthcare, and the demands of operating a universal healthcare system in the world's fifth-largest country by population are immense.

A further market driver was the expansion of the middle class, which grew by more than 30

million people over the past decade. This movement promoted an impressive increase in the private healthcare market, a system that helps to meet the demands that cannot be covered by the SUS alone.

Even with a slight contraction of the past couple of years, the number of private health insurance beneficiaries is still 20% higher today than it was ten years ago. Almost 50 million Brazilians possess private health insurance, a quarter of the total population, making it the second-largest private healthcare system in the world.

► Current healthcare spending in Brazil

PUBLIC SPENDING **48.20%**

PRIVATE HEALTHCARE INSURANCE **20.90%**

PERSONAL SPENDING **29.90%**

NON-PROFIT HEALTHCARE SERVICES **1%**

Source: Euromonitor

► Current healthcare spending in Brazil

YEAR	AMOUNT
2015	166.80
2020	266.00
2025	427.10

Source: Euromonitor

INNOVATION AND GROWTH

Future growth in the life sciences sector will stem from businesses that bring new innovative products to the market, including transferred technology not currently present in Brazil.

Industry leaders, including 3M, Baxter, Beckton Dickinson, Dentsply, Fresenius, GE Healthcare, Geratherm, Johnson & Johnson, Philips, Roche, Medtronic and Siemens Healthcare already operate in Brazil, as well as GSK, Bayer, MSD, Sanofi, Pfizer, Novartis and Novo Nordisk.

Furthermore, since 2015 foreign capital has been allowed to invest in enterprises related to healthcare services in Brazil, including controlling and holding direct and indirect equity interests in hospitals and **clinics**¹. More than 70 M&A transactions involving international

companies and private equity funds happened in 2015 alone, and some BRL 5 billion (USD1.59 billion) is expected to be invested in the hospital management business in 2017 and 2018.

Biosimilar products are another growing market in the Brazilian pharmaceutical sector. Since 2014, patients have been allowed to choose between brand-name, generic or biosimilar medicines at drugstores, using a single prescription from a doctor. In 2016, the Brazilian company Libbs started the first domestic biosimilar drug production and Brazilian joint ventures Bionovis and Orygen are expected to begin production soon.

Endnotes:

1. Law 13,097/2015, Chapter XVII

PRODUCTIVE DEVELOPMENT PARTNERSHIPS (PDP)

Productive Development Partnerships (PDP) reflect a policy created in 2008 that aims at increasing the population's access to strategic products and reducing SUS vulnerabilities and costs in the acquisition of those products. It aims to substantially reduce Brazil's dependence on imported products with anticipated savings of between 15% and 25%, depending on the product.

Each PDP is a partnership that involves cooperation between public institutions and pri-

vate entities for the development, transfer and absorption of technology, and technological and productive capacity, for strategic products.

The list of strategic products is determined annually by the Ministry of Health, according to SUS's needs.

From 2011, when purchases within PDPs were initiated, to 2015, PDPs purchases represented saving of BRL 2.9 billion (USD 925 million) to the Ministry of Health.

SOURCES

- ▶ Official news: Life expectancy in 2015 (Portuguese only) <http://www.brasil.gov.br/governo/2016/12/expectativa-de-vida-no-brasil-sobe-para-75-5-anos-em-2015>
- ▶ IBGE: National Health Report (Portuguese only) <http://biblioteca.ibge.gov.br/visualizacao/livros/liv94074.pdf>

PRIVATE EQUITY AND VENTURE CAPITAL

Opportunities for private equity and venture capital in Brazil have picked up since 2011. The dynamism of the segment can be seen in the growing amount of capital committed for investments in Brazil, which almost tripled over a 5-year period, as well as increasing gross payouts to investors, according to ABVCAP, the Brazilian Association of Private Equity and Venture Capital.

► Private Equity and Venture Capital (in billions of BRL)

YEAR	COMMITTED CAPITAL (USD)	COMPANIES INVESTED IN (USD)	SHARED WITH INVESTORS (USD)	COMMITTED CAPITAL (BRL)	COMPANIES INVESTED IN (BRL)	SHARED WITH INVESTORS (BRL)
2011	20.3	12.7	5.3	63.5	39.7	16.6
2012	26.5	16.8	6.7	83.1	52.7	20.9
2013	32.0	22.5	7.2	100.2	70.7	22.5
2014	40.5	27.0	8.5	126.9	84.6	26.7
2015	48.9	32.7	10.7	153.2	102.4	33.6

Source: ABVCAP

The constant development of private equity and venture capital in Brazil also reflects opportunities in industries that have shown significant potential in the past decade, such as healthcare and drugstores, oil and gas, education and retail for PE transactions and, from 2013 to 2016, mobile, SaaS, financial technology and agricultural technology, among other deals by domestic venture capitalists. Also notable is the exponential rise of Brazil-

ian and international corporate venture activity through accelerators, open innovation programs and funds to foster investment in the Brazilian innovation ecosystem since 2015.

A change in Brazilian regulations regarding the public health system (SUS) allowed foreign investment in healthcare and drugstores, making it the top sector in 2015, alongside the country's booming education segment.

► Percent invested by PE/VC per industry in 2015

SECTOR	AMOUNT INVESTED
HEALTHCARE AND DRUGSTORES	38%
EDUCATION	12%
ENERGY (POWER)	11%
RETAIL	11%
OIL AND GAS	10%
LOGISTICS AND TRANSPORTATION	4%
IT	3%
OTHER SECTORS COMBINED	11%

Source: ABVCAP

REGULATIONS

Regulations have also kept pace. In 2016, the Brazilian Securities Commission (CVM) issued two new rules (CVM 578 and CVM 579), designed with the participation of industry players in public hearings, to replace previous, outdated regulation, aiming at facilitating new investment and reflecting internationally applied regulations and practices.

Among the main changes, subscribed capital has become the reference limit for equity investment funds (FIPs) instead of net worth. The new rule also includes simple corporate debt bonds (debentures) among the assets available for investment by FIPs, limited to 33% of subscribed capital. This greatly increases the range of financial investments available to investors.

The recent regulations also created new categories for funds, which are now divided into seed capital, emerging companies and multi-strategy — the last one being eligible to invest abroad.

Accounting has also been made more transparent, as a new CVM rule seeks to coordinate Brazilian systems with international guidelines followed by the International Accounting Standards Board (IASB). CVM rule 579 changes the criteria for recognizing, classifying and measuring assets and liabilities, as well as revenue, appropriation of expenses and the disclosure of information regarding the funds' balance sheets.

ANGEL INVESTORS

Another big step for the sector came in the form of a 2016 law which introduced the definition of "angel investors" into Brazilian legislation, granting enhanced legal security for over 7,200 investors in an industry that bears significant risk, and aligning local regulations with international best practices.

Among several improvements, the new law establishes that angel investors cannot be considered partners of, or answer for liabilities of, the companies they have invested in. The maximum investment period is 7 years and investors' payout cannot exceed 50% of the startup's profits.

More information about the PE/VC sector in Brazil can be found at: <http://www.abvcap.com.br>

INDUSTRY & TAX INCENTIVES

OVERALL INDUSTRY INCENTIVES

EX-TARIFF ("EX-TARIFÁRIO")

Special tax regime with the temporary reduction of the Import Tax (II) rate for capital goods (BK) and computer and telecommunication (BIT) goods. As a condition, these goods must not be similar to any goods already produced in Brazil. Another regulation (Administrative Order DE-CEX/1991) also provides for import duty reductions on the purchase of used goods not produced domestically for companies interested in transferring used units to the country.

Ex-tariff may also be applied for auto parts and components, according to specific regulations.

IPI EXEMPTION

Special tax regime with the temporary reduction of the Import Tax (II) rate for capital goods (BK) and computer and telecommunication (BIT) goods. As a condition, these goods must not be similar to any goods already produced in Brazil. Another regulation (Administrative Order DE-CEX/1991) also provides for import duty reductions on the purchase of used goods not produced domestically for companies interested in transferring used units to the country.

Ex-tariff may also be applied for auto parts and components, according to specific regulations.

RECAP SPECIAL REGIME FOR ACQUISITION OF CAPITAL GOODS FOR EXPORTING COMPANIES

Allows companies to purchase on the domestic market or import capital goods (new machines, instruments and equipment) with the suspension of the payment of PIS/PASEP and COFINS taxes. Shipyards and companies that export 50% or more of the value of their annual sales are eligible.

REINTEGRA SPECIAL REGIME FOR THE REINSTATEMENT OF TAXES FOR EXPORTING COMPANIES

Partially or entirely restores the remaining residual tax on the production of exported goods. Does not apply for export trading companies (ECEs).

SMALL COMPANIES REGIME (SIMPLES NACIONAL)

The "Simples Nacional" tax regime offers a separate and simplified treatment for micro and small companies, with unified conditions for the payment of federal taxes and contributions (CSLL, PIS, COFINS, IPI, Social security contribution on the payroll), state tax (ICMS) and municipal tax (ISS).

SPECIAL TAX REGIMES BY SECTORS

- ▶ **REIDI** – Special Regime of Incentives for the Development of Infrastructure
- ▶ **PADIS** – Program of Support for the Technological Development of the Semiconductor Industry
- ▶ **RETID** – Special Tax Regime for the Defense Industry
- ▶ **REPES** – Special Tax Regime for Platforms of Exportation of Information Technology Services
- ▶ **REPORTO** – Special Tax Regime for Modernization and Expansion of the Port Structure
- ▶ **RETAERO** – Special Regime for the Brazilian Aerospace Industry

SPECIAL LEGAL FRAMEWORKS

INNOVATION LAW

Organized around three pillars, this law benefits companies investing in technological innovation, especially micro and small companies. The pillars are: **1.** the creation of mechanisms conducive to strategic partnerships between universities, technological institutes and companies; **2.** promoting the participation of institutes engaged in science and technology in the innovation process; and **3.** encouraging innovation in the company.

IT LAW

(LEI DA INFORMÁTICA)

Enables the reduction of the IPI for computing goods, produced according to a set of minimum requirements in the manufacturing facility, defined by law, which characterizes the effective industrialization of a particular product. Benefits apply to computer industries, automation, telecommunications, microelectronics, medical devices, software and technical services.

SOURCES

- ▶ RENAI/MDIC – Summary Table: Federal mechanisms for productive investments incentive (February/2017) <http://investimentos.mdic.gov.br/public/arquivo/arq1488568615.pdf>
- ▶ TIPI http://www.planalto.gov.br/ccivil_03/_Ato2015-2018/2016/Decreto/Anexo/AND8950.pdf

BRWA

SUPPORT MECHANISMS FOR BUSINESS IN



4 SUPPORT MECHANISMS FOR BUSINESSES IN BRAZIL

FINANCING

The Brazilian Development Bank (BNDES) is a state-owned bank and has been a key instrument for Brazilian economic development since its foundation in 1952. First created to support national economic policies, it soon became an essential engine for infrastructure and, in the years that followed, the BNDES also assumed a crucial role in helping strengthen Brazil's growing manufacturing industry.

In 2017, the BNDES announced new corporate policies for lending, with the goal of creating more social benefits. Priority sectors include health, education, innovation and infrastructure, with a focus on environmentally-friendly projects.

The BNDES's stated mission is "to foster sustainable and competitive development in the Brazilian economy, and to support job creation while contributing to a reduction in social and regional inequality." The BNDES offers several competitive financial support mechanisms to private companies with headquarters and management in Brazil, especially those that promote innovation,

regional development and social and environmentally-friendly activities. The bank supports companies of all sizes.

The BNDES's basic loan interest rate – the TJLP ("*Taxa de Juros de Longo Prazo*," or "Long Term Interest Rate") – is currently 7% per year, while the Selic, the Central Bank's benchmark interest rate, was 11.25% in April 2017.

After reaching a record of BRL 190 billion (USD 60.6 billion) in disbursements in 2013, the BNDES started to rethink its strategy, in line with the country's priorities, especially reducing public spending. Reducing and rationalizing the BNDES's spending volumes would be a matter not only of healthier, but also more sustainable public expenditures. There is also demand for private credit institutions and, through them, the creation of a more efficient and dynamic market. In the shadow of the BNDES, private players have had to make do with a small share of the country's infrastructure and long-term investments. By balancing this, the BNDES is now able to focus on socially relevant investments.

In January 2017, the BNDES presented a set of new rules to guide its future operations. It established new limits on the TJLP share of investments (up to 80% of the total amount), defined new criteria for lines of credit and eligible beneficiaries and empowered the bank as an agent in the national privatization program (led by the PPI, the Partnership and Investments Program). The main idea is to prioritize subsidized credit and benefits to small businesses and strategic social areas, namely infrastructure, education, health, innovation, exports, and the environment.

As of January 1, 2018, the TJLP (determined quarterly by the Central Bank) will be gradually discontinued and replaced by a new interest rate applied to new contracts, the TLP ("*Taxa de Longo Prazo*," or "Long Term Rate"), a rate defined by the Broad Consumer Price Index (IPCA) and the real interest rate of NTN-B government bonds, the yields for which are based in the official IPCA inflation index. The goal is to gradually reduce the subsidy inherent in the difference between the Bank's basic loan interest rate (TJLP, currently at 7.0%) and its funding (provided by the National Treasury, which borrows money at market rates, linked to the Selic, which was 11.25% in April 2017). In the long run, this measure could decrease the gap between the BNDES's interest rates and those of the National Treasury, which are themselves expected to be significantly lower by that time.

MAIN BNDES FINANCIAL SUPPORT MECHANISMS

Earmarked for investment projects, one-off purchases of new machinery and equipment, exports of machinery, Brazilian equipment and services and the acquisition of goods and production inputs, the BNDES's loans have helped Brazil's development. Since 2017, with the BNDES's new rules, financing modalities are defined by the features and potential benefits of the applicant projects (called "horizontal action"), rather than by industries, as it was done in the past. The Bank also manages some funds, which are used to support specific activity sectors.

A. FINANCING

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NEW DIVISIONS OF LINES OF CREDIT - BNDES FINEM

For credit above BRL 20 million (USD 6.4 million)

INCENTIVIZED LINES A AND B ("LINHA INCENTIVADA")

A. Projects in innovation and the environment; education, health and welfare (public); modernization of government; projects by micro, small and medium-sized enterprises – up to BRL 300 million (USD 95.7 million) in annual revenue.

▶ TJLP up to 80% of total investment

B. Projects in territorial and regional development; education, health and welfare (private); technology industry and services; knowledge-intensive businesses; food and biofuel production.

▶ TJLP up to 60% of total investment

STANDARD LINES A AND B ("LINHAS PADRAO")

A. Expansion of production capacity

▶ TJLP up to 30% of total investment

B. Other investments

▶ No credit with TJLP (0%)

INFRASTRUCTURE

Infrastructure will have its own financing conditions, with the TJLP-financed share ranging from 0% (as is the case for energy power transmission) to 80% of the total amount (for solar power, sanitation, waterways or biofuel transportation). Conditions vary according to criteria of relevance and sustainability.

B. GRANTS

Investments of a social, cultural (educational and research), environmental, scientific or technological nature, which need not be repaid to the BNDES.

C. EQUITY INVESTMENTS

The BNDES, through BNDESPar (its private equity division), can participate as a holder of securities, i.e. shares, simple bonds (called *debentures*), convertible bonds, subscription warrants, options and other derivative products, in addition to participation in asset-backed (receivables) investment funds (FIDC) – in publicly-listed companies, in public or private issuances, or in companies that may join the capital market in the short or medium term, through a private issuance.

In addition to the BNDES, several international, domestic and regional commercial banks operate in Brazil, providing lines of credit to companies and investors. Most of these banks are members of the Brazilian Federation of Banks (FEBRABAN).

www.febraban.org.br

SOURCES

- ▶ BNDES Finem program (Portuguese only): http://www.bndes.gov.br/wps/portal/site/home/financiamento/bndes-finem!/ut/p/z1/o4_iUIDg4tKPAFJABpSAofpReYllmemJJZn5eYk5-hH6kVFm8T6W3q4eJv4GP-gYmFkYGji4hIW6mf0FGBmHm-l76UfgVFGQHKGIAGX76bw!!/
- ▶ TJLP rate history (Portuguese only): <http://www.bndes.gov.br/wps/portal/site/home/financiamento/guia/custos-financeiros/taxa-de-juros-de-longo-prazo-tjlp/#evolucao>

TAX INCENTIVES: FEDERAL & REGIONAL

There are several tax-related incentives and special regimes offered to support and stimulate investments in Brazil. These may be issued by federal, state or municipal governments. On the federal level, Corporate Income Tax (IRPJ), social contribution taxes levied on gross revenue (PIS/Pasep, Cofins, CSLL) and the tax on manufactured products (IPI) are the most common taxes eased by the government's incentive programs. Export and import tariffs may also be reviewed to encourage shipments and reduce the costs of raw material imports for industry, for example.

These mechanisms are generally used to promote strategic sectors the government is interested in developing. Capital goods, infrastructure, clean energy, innovation, ICTs and high value-added industries, such as automotive and aerospace, are some of the industries continually regarded as priorities.

Micro and small businesses also have their own special tax regime, under the "*Simples Nacional*" and MEI ("Individual Micro-Entrepreneur") programs.

SOME FEDERAL INCENTIVE PACKAGES

▶ **PADTV - Brazilian Digital TV Industry Development Support Program**

Grants exemptions from several taxes, duties and contributions to companies, conditional upon performing certain development and production steps (including design, creation, development, manufacturing, final assembling and testing) in Brazil, in relation to companies that develop and manufacture Digital TV equipment in Brazil.

▶ **RECAP - Special Tax Regime for Capital Goods Acquisition by Export Companies and Shipyards**

This measure allows companies to purchase capital goods on the domestic market or to import them (new machines, instruments and equipment) with the suspension of the payment of the PIS/PASEP and the COFINS taxes.

▶ **REIDI - Special Tax Regime for Infrastructure Development**

Establishes the suspension of the PIS/PASEP and COFINS taxes on the acquisition of machines and equipment for inclusion in fixed assets for infrastructure projects. To apply for the benefit, as qualified or co-qualified, companies must present a copy of the administrative order that approved the infrastructure project, published by the ministry of the respective sector, to the Brazilian Federal Revenue Office (SRF).

▶ **REINTEGRA - Special Regime for the Reinstatement of Taxes for Exporter Companies**

This special tax regime aims to partially or entirely restore the remaining residual tax on the production of exported goods.

▶ **RETAERO – Special Regime for the Brazilian Aeronautics Industry**

This special regime allows the suspension of the requirement of PIS / PASEP and IPI taxes when purchasing included goods domestically or importing them.

▶ **REPENEC - Special Incentive Regime for the Development of the Oil Industry Infrastructure in the North, Northeast and Midwest Regions**

Applicable to pre-approved projects for the Northern, Northeastern and Midwestern regions, in petrochemistry, petroleum refining and the production of ammonia and urea from natural gas. Suspends PIS/Pasep, Cofins, IPI and Import Tariffs for the purchase or import of machinery and equipment.

▶ **REPES - Special Tax Regime for IT Services Export**

This special regime applies to goods corporate entities include in their fixed assets (in the case of goods). It suspends the PIS/PASEP and COFINS taxes on gross revenue arising from the sale of new goods or services. It also suspends PIS/PASEP- Import and COFINS-Import taxes on new goods and services.

▶ **REPORTO - Special Tax Regime for Port Infrastructure Modernization**

Special tax regime – its main feature is a tax reduction on the acquisition of machines and equipment, with a reduction of the IPI, COFINS, PIS/PASEP and II (in the case of equipment without a domestic equivalent). Expires December 31, 2020.

▶ **REPETRO - Special Import and Export Customs Regime Intended for the Exploration and Production of Oil and Gas**

Special customs regime that offers the suspension of federal taxes and administrative fees levied on the export and import of goods used in oil and gas field exploration and production.

Updated information about these and other programs can be consulted at the legislation by type page of the Federal Revenue Service's official website, under the tag "Special tax regimes" (in Portuguese): <http://idg.receita.fazenda.gov.br/acesso-rapido/legislacao/legislacao-por-assunto>

IMPORT INCENTIVES

"EX-TARIFÁRIO" (EXEMPTIONS TO REGULAR IMPORT TARIFFS):

This incentive allows for temporary reductions in import tariffs, often to very low levels (between 0% and 2%), to facilitate investment in capital goods (BK), IT and telecommunications goods (BIT) for industrial development and key investment projects (acronyms follow the Mercosur Common External Tariff). The so-called "ex-tariff" system is available only for machinery and equipment not produced in Brazil.

Companies can request inclusion in the system by applying to the Production Development Office (SDP) at the Ministry of Development, Industry and Trade (**MDIC**).

GMC RESOLUTION 08/08

This resolution allows MERCOSUR Member States to reduce tariffs for up to 45 NCM codes of the Mercosur Common External Tariff (CET), with the condition of prior approval of all state parties. This is an exceptional mechanism for the CET, applicable to cases of regional shortages of raw materials and products on the domestic market of each country and conditioned on there not being regional production in MERCOSUR capable of meeting the need.

REGIONAL INCENTIVES

To encourage growth in its least developed regions, Brazil also has incentive packages and local development agencies that work to attract and stimulate investments.

Packages include federal, state and municipal benefits. Investors willing to establish operations in these regions can receive significant corporate tax reductions (up to 75%), among other benefits.

These specific regional packages are coordinated by regional development bodies, such as:

- ▶ **SUDAM (Amazon Region Development Agency) – Federal agency responsible for the states of Acre, Amapá, Amazonas, part of western Maranhão, Mato Grosso, Pará, Rondônia, Roraima and Tocantins.**
- ▶ **SUDENE (Northeastern Brazil Development Agency) – Federal Agency responsible for all states in the Northeast, as well as some municipalities in Minas Gerais and Espírito Santo.**

In addition to the benefits described above, the Manaus Free Zone in the state of Amazonas has specific incentives with the objective of creating an industrial, commercial and agricultural center under economic conditions that allow its development.

STATE-LEVEL INCENTIVES

The VAT-style ICMS tax is the main state-level tax and also the main tool for local investment incentives. It is levied on the intra- and interstate movement of goods and services and is defined by each state individually. ICMS reductions are usually used by states to attract greenfield projects to their region.

Some states also have their own investment promotion agencies, as in the case of Investe SP (www.en.investe.sp.gov.br, in English), the São Paulo state investment agency, AgeRio (www.agerio.com.br, available in English and Spanish) in Rio de Janeiro, and INDI, from Minas Gerais (<http://www.indi.mg.gov.br/en/>, available in English).

Local state governments are available to provide investors with information on their state's incentive program upon request, which can be made directly to the appropriate department of the state's administration.

MUNICIPAL-LEVEL INCENTIVES

There are two main taxes under municipal jurisdiction in Brazil: Municipal Services Tax (ISS) and Urban Real Estate Tax (IPTU). Municipal authorities can concede tax reductions on these according to the amount invested and jobs created by an investment project. Local authorities can also give land grants, depending on the importance of the project in terms of local economic and social impact.

Endnotes:

1. Detailed procedures for "ex-tarifário" application at MDIC Resolution 66/2014, art. 2.

SOURCES

- ▶ IRPJ - Fiscal Incentives (Portuguese only)
<http://idg.receita.fazenda.gov.br/aceso-rapido/legislacao/legislacao-por-assunto/IRPJ-Incentivos-Fiscais>
- ▶ National Revenue Service: Legislation by topic. "Special tax regimes, supporting programs, immunities" (Portuguese only) <http://idg.receita.fazenda.gov.br/aceso-rapido/legislacao/legislacao-por-assunto>
- ▶ MDIC: What is ex-tarifário? (Portuguese only)
<http://www.mdic.gov.br/competitividade-industrial/acoes-e-programas-13/o-que-e-o-ex-tarifario>
- ▶ Deloitte: Tax and Financial Incentives (In English)
<https://www2.deloitte.com/br/en/pages/doing-business-brazil/articles/tax-and-financial-incentives.html>

EXPORT PROCESSING ZONES (EPZs)

Export Processing Zones (EPZs) are free trade industrial districts aimed at attracting companies engaged in the production of goods to be traded worldwide, bringing new investment, employment and technological innovation to Brazil.

Companies established within an EPZ enjoy considerable incentives, including several federal tax suspensions (i.e. tax exemption for the specific operation) applicable to purchases of capital goods, raw materials, intermediate products and packaging materials. Investors can also benefit from free currency exchange, which means they are not obliged to convert foreign currency obtained from exports into Brazilian reais. This is an advantage as these companies send most of their products abroad.

In return, they commit to export a minimum of 80% of total gross sales revenue. Companies can sell 20% of their production to the domestic market, with the collection of all federal and state taxes suspended.

Contracts are granted for a long term: 20 years, extendable for an additional 20 years.

MAIN BENEFITS

For purchases of goods and services on the domestic market, the government grants the suspension of:

- ▶ **IPI (Tax on Manufactured Products)**
- ▶ **COFINS (Social Contribution – Tax Presumptive Profit)**
- ▶ **PIS/PASEP (Social Contribution on Gross Revenue)**

For imports of goods and services, the government grants the suspension of:

- ▶ **II (Import Tax)**
- ▶ **AFRMM (Additional Freight Charge for the Renovation of the Merchant Marine)**
- ▶ **IPI**
- ▶ **COFINS - Import**
- ▶ **PIS/PASEP – Import**

EPZs are considered primary zones for purposes of customs control.

OTHER BENEFITS

For purchases of goods and services on the domestic market, the government grants the suspension of:

- ▶ **Regional tax incentives in the North and Northeast regions**
- ▶ **Tariff-free imports of used capital goods**
- ▶ **Possible exemption from state value-added tax (ICMS)**
- ▶ **Certain IT and research and development incentives**
- ▶ **Exemption from licenses and authorizations for certain import and export transactions – with the exception of sanitary, national security, and environmental measures**

IMPORTANT: Companies authorized to operate in EPZs are subject to the same legal and regulatory provisions applicable elsewhere in Brazil.

LOCATIONS

► Brazil has the following authorized EPZs in 17 states:

STATE	ABBREVIATION	LOCATION
ACRE	AC	SENADOR GUIOMARD
BAHIA	BA	ILHÉUS
CEARÁ	CE	PECÉM
ESPÍRITO SANTO	ES	ARACRUZ
MINAS GERAIS	MG	TEÓFILO OTONI AND UBERABA
MATO GROSSO DO SUL	MS	COUMBÁ AND BATAGUASSU
MATO GROSSO	MT	CÁCERES
PARÁ	PA	BARCARENA
PERNAMBUCO	PE	SUAPE
PIAUI	PI	PARNAÍBA
RIO DE JANEIRO	RJ	ITAGUAÍ
RIO GRANDE DO NORTE	RN	ASSÚ AND MACAÍBA
RONDÔNIA	RO	PORTO VELHO
RORAIMA	RR	BOA VISTA
SANTA CATARINA	SC	IMBITUBA
SÃO PAULO	SP	FERNANDÓPOLIS
TOCANTINS	TO	ARAGUAÍNA

SOURCES

► EPZs information (ENGLISH) http://www.mdic.gov.br/images/REPOSITORIO/czpe/Apresen-ta%C3%A7%C3%B5es/2017-02-21_SE-CZPE_-_EPZ_Basic_Information_ENG.pdf

► EPZ Legislation (Portuguese only) <http://www.mdic.gov.br/czpe/legislacao-zpe>

SMALL BUSINESS SUPPORT

Micro and small enterprises account for 27% of Brazilian GDP, making them an important source of wealth and employment in the country. Non-Brazilian citizens can run micro or small companies as long as they have a permanent visa; temporary visa holders are not allowed to do so. There are initiatives that provide support to foster micro and small enterprise growth. Here are some of them:

BRAZILIAN SUPPORT SERVICE (SEBRAE)

Sebrae is a public-interest private entity with the mission of supporting micro and small businesses through partnerships with the private sector, education and mentorships. It is part of Brazil's network of professional training agencies (the 'S'-System) and is present in every Brazilian state. Its regional units act under the national coordinator but adapt themselves to local conditions.

One of Sebrae's main duties is to provide advice and information to entrepreneurs, so it often organizes courses, lectures, training meetings and fairs to foster access to the formal economy. It is also a reliable source of data and information about the micro and small enterprise market in the country, with more than 40 years of work.

Many of its services are free and available on the internet, but only in Portuguese. For more information, go to www.sebrae.com.br

TAXATION

In order to simplify Brazilian taxes for small companies, a special regime was created in 2006. The so-called "Simples Nacional" allows business to pay several taxes by way of one monthly payment, called the DAS, in addition to receiving tax incentives.

The system has been reviewed recently by the Brazilian government, and new rules will be fully implemented in 2018, increasing the revenue allotted to fit within the regime.

Simples Nacional is available for companies that earn up to BRL 3.6 million (USD 1.15 million)

in gross revenue, but the limit will be extended to up to BRL 4.8 million (USD 1.53 million) in 2018. The tax corresponding to the difference between amounts is charged progressively, with different tax rates.

The Simples Nacional also allows for the participation of angel investors, without the need to be an official partner.

More information can be found at: <https://www8.receita.fazenda.gov.br/SimplesNacional/Default.aspx> (Portuguese only).

SOURCES

- ▶ Small Business information http://www.sebrae.com.br/sites/PortalSebrae/canais_adicionais/conheca_quemosomos (Portuguese only)
- ▶ Simples Nacional information <https://www8.receita.fazenda.gov.br/SimplesNacional/Default.aspx> (Portuguese only)

BRWA

LEGAL FRAMEWORK
FOR INVESTMENT IN



5 LEGAL FRAMEWORK FOR INVESTMENT IN BRAZIL

FOREIGN CAPITAL

THE FOLLOWING SECTION RELATES TO THE ENTRY OF CAPITAL INTO BRAZIL FOR PRODUCTIVE INVESTMENT ONLY. FOR INVESTORS SEEKING INFORMATION ON HOW TO INVEST IN BRAZIL'S FINANCIAL MARKET, PLEASE VISIT [HTTP://WWW.PORTALDOINVESTIDOR.GOV.BR/INDEX.HTML](http://www.portaldoinvestidor.gov.br/index.html) (ENGLISH), AS WELL AS THE FOLLOWING GUIDE PRODUCED BY THE BRAZILIAN CENTRAL BANK:

[HTTP://WWW4.BCB.GOV.BR/PEC/GCI/INGL/NON-RESIDENT_INVESTORS_GUIDE_BEST.PDF](http://www4.bcb.gov.br/pec/gci/ingl/non-resident_investors_guide_best.pdf) (ENGLISH).

LEGAL DEFINITION

Foreign capital is defined under Brazilian law as being any assets, machinery or equipment entering Brazil from abroad, as well as financial or monetary resources, intended for the production of goods and services or to be used in economic activities in the country. In all cases, it must belong to individuals or legal entities residing, domiciled or headquartered outside Brazil. The law also guarantees that foreign capital in Brazil will be treated on an equal footing with domestic capital, unless the investment falls within one of the few exceptions detailed **below**.

FOREIGN DIRECT INVESTMENT (FDI)

Brazil defines FDI (or “IDP,” the acronym in Portuguese) as a permanent ownership interest in companies in Brazil, held by a non-resident investor (individual or legal entity) residing, domiciled or headquartered abroad. This ownership interest can be in the form of shares or membership units representing the

equity of a Brazilian company, as well as the allocated capital of branches or subsidiaries of foreign companies authorized to operate in Brazil.

There are two types of transactions recognized as FDI in Brazil: equity capital and intercompany loans.

► **Equity capital** is foreign capital that enters the country for the purchase of goods, foreign exchange related to FDI or for the purchase, subscription or capital increase for all or part of the shares of companies established in Brazil. Privatizations, acquisitions and greenfield projects led by foreign investors are examples of transactions classified as equity capital investments. Reinvested earnings (profits not remitted to the direct investor or parent company overseas, but retained by the company to be reinvested in the business or any other economic sector within the country) are also regarded as equity capital.

► **Intercompany loans** consist of the borrowing and lending of funds between parent and affiliated enterprises. Examples of this type of FDI inflow are loans received by enterprises in Brazil, as well as amortization paid back to a Brazilian company by a related company abroad.

MERGERS & ACQUISITIONS

Brazilian law allows for mergers and acquisitions (M&A) by foreign investors. No special rules apply, although FDI remains restricted in certain sensitive and strategic sectors listed below.

Brazil's official competition and antitrust regulator is the Brazilian Antitrust Authority (Cade), a federal body related to the Ministry of Justice and responsible for preventing, adjudicating and punishing acts of abuse of market power. Cade's work is paired with the Economic Supervision Office (SEAE), which, under the Ministry of Finance, is responsible for developing policies regarding market regulation and competition. For M&A operations involving financial institutions, the main regulator is the Central Bank of Brazil.

Since 2012, a new antitrust framework (Law 12,529/2011) has governed the competition protection system. It was designed to reformulate Cade's workflow and accelerate decision-making on issues regarding competition. According to the watchdog institution, the average length of a merger analysis was lowered from 154 days in 2011, before the law came into force, to 31 days three years later.

To further improve M&A regulations in Brazil, the Brazilian Mergers and Acquisitions Committee (CAF) was created in November 2012. The CAF brings together participants of the financial market and the São Paulo Stock Exchange (BM&F Bovespa) and is based on the United Kingdom's Panel on Takeovers and Mergers. The Brazilian M&A Committee oversees a monitoring framework based almost entirely on self-regulation by publicly traded companies and has become a corporate governance quality seal for M&A transactions involving companies that have voluntarily adhered to its rules.

NO RESTRICTION ON MOST FDI

Foreign capital can freely enter Brazil and is not subject to prior approval by the government. There are no conditions regarding the total amount of investment that can be made in Brazil.

A small number of exceptions exist that prohibit or limit FDI in certain sectors:

PROHIBITIONS

- ▶ Activities involving nuclear energy;
- ▶ Aspects of health care services **(areas of healthcare services open to FDI are expressly provided for by law – the most recent was adopted in January 2015)¹¹**;
- ▶ Mail and telegraph services;
- ▶ Aerospace (launch and deployment of satellites, vehicles, aircraft or the commercialization of these goods, but the prohibition does not apply to manufacturing or trading these goods).

RESTRICTIONS/ LIMITATIONS

Foreign capital may be subject to limitations or prior authorization from public authorities may be required

- ▶ Acquisition or rental of rural property;
- ▶ Financial institutions (same rules on foreign capital as apply in parent bank's country of origin);
- ▶ Air transportation companies **(foreign capital is capped at 20% of ordinary shares of domestic companies; however, the government has signaled towards withdrawing this limitation)¹²**;
- ▶ Media, including television networks, magazines, newspapers and radio broadcasting stations (the government prevents foreign investment in the ownership and administration of media – legislation stipulates that at least 70% of the total capital of media companies must be owned directly or indirectly by Brazilians born in Brazil or Brazilians naturalized for a period of at least ten years);
- ▶ Mining sector.

REGISTERING FOREIGN CAPITAL

Investors are required to register all inflows of foreign capital into Brazil with the Brazilian Central Bank (BCB), which can only be done online through the BCB's e-registration tool, RDE-IED (Electronic Registry of Foreign Capital), which is part of the Brazilian Central Bank's Computerized Information System (SISBACEN). The recipient company of the FDI or legal agent is responsible for the registration.

Distribution of profits, dividends and interest on stockholders' equity paid through international "transfers in reals" (TIR) or the exchange market do not need to be registered in the system – any exchange contract or transfer to a foreign bank account will be automatically linked to the profile registered by the system. However, these payments made directly abroad, without currency exchange, or within the Brazil, without any international bank transfer, must be registered to the RDE-IED profile.

More information on registering foreign capital can be found on the Brazilian Central Bank's website (in English):

<http://www.bcb.gov.br/?RMCCINORMS>

A users guide to the Electronic Declaration Registry (in Portuguese) is available from the Brazilian Central Bank's website:

www.bcb.gov.br/?RDEIED

TAXES ON FOREIGN CAPITAL

Foreign capital that enters Brazil as FDI is not subject to any taxation. However, intercompany loans are subject to a federal financial transactions tax, the IOF (Tax on Credit, Foreign Exchange, Bonds and Securities Transactions and on Insurance Operations) at a rate that varies depending on the sector and the time-span of the investment, among other factors. Though intercompany loans are classified as FDI, the Federal Revenue Service (*Receita Federal*) regards this kind of investment as a normal, interest-bearing financial transaction that is subject to the same IOF rates as domestic investments.

The remittance of profits and dividends abroad and the repatriation of foreign capital are exempt from withholding income tax (IR) when leaving Brazil. However, this only applies if the sum of capital to be sent abroad is the same as the sum that was registered with

the Brazilian Central Bank. Capital repatriated in an amount greater than the initial amount registered is deemed a capital gain and is subject to a 15% or 25% withholding income tax rate unless otherwise provided for by an applicable tax treaty between Brazil and the other country involved.

In March 2017, Brazil had double-taxation treaties with 33 countries. Treaty texts and related legislation are available at:

<https://idg.receita.fazenda.gov.br/aces-so-rapido/legislacao/acordos-internacionais/acordos-para-evitar-a-dupla-tributacao/acordos-para-evitar-a-dupla-tributacao>

(Portuguese only).

Endnotes:

I. Law 4,131/1962 (the primary law that regulates foreign capital in Brazil), art. 1 and 2:

II. Law 13,097/2015, chapter XVII

III. Foreign capital in domestic airlines is limited to 20% by the Civil Aviation Code (Law 7,565, art. 181). Brazil's new Tourism Program is "Brasil + Turismo": <http://www.turismo.gov.br/brasilmaiturismo> (Portuguese only).

SOURCES

- ▶ Law of Foreign Capital (Law 4,131/1962) (Portuguese only). http://www.planalto.gov.br/ccivil_03/leis/L4131.htm
- ▶ BCB: Current legislation about foreign capital in Brazil (Portuguese only). <http://www.bcb.gov.br/rex/legce/port/capitaisinternacionais.asp>
- ▶ Regulations of CMN and Central Bank for foreign capital in Brazil (in English) <http://www.bcb.gov.br/rex/LegCE/Ingl/regulation.asp>
- ▶ BCB's resolutions about foreign capital in Brazil (Portuguese only):
 - » *Resolution 3844/2010 (in English)*
 - » <http://www.bcb.gov.br/rex/legce/Ingl/Ftp/Resolution3844.pdf>
 - » *Circular 3689/2014 (in English)*
 - » <http://www.bcb.gov.br/rex/legce/Ingl/Circular3689/Index.asp?idpai=EXCHANGEREGL>
- ▶ Competition Law (Law 12,529/2011) (Portuguese only). http://www.planalto.gov.br/ccivil_03/_ato2011-2014/2011/Lei/L12529.htm

CONTRACT ENFORCEMENT AND INVESTOR PROTECTION

The Brazilian judiciary is an independent system, ruled by law, with administrative and financial autonomy under the Federal Constitution. Its primary function is to resolve conflicts and enforce individual, collective and social rights. It is composed of several courts distributed among federal and state levels, with the Federal Supreme Court "Supremo Tribunal Federal" (STF), made up of 11 justices, being the country's highest court.

The Federal Supreme Court is the body ultimately responsible for the interpretation and enforcement of the Constitution. Under it is the Superior Court of Justice (STJ), which is responsible for the uniform interpretation of federal legislation, as well as the regional federal, state and specialized courts. Brazil's judiciary has three specialized courts dealing with matters outside general jurisdiction: Labor, Electoral and Military, each of them with their own regional and superior courts. They are headed, respectively, by the Superior Labor Court (TST), the Superior Electoral Court (TSE) and the Superior Military Court (STM).

► Overview of the Brazilian legal system's institutional framework

The Brazilian Constitution is the foundation of all the country's legislation. It safeguards the rights and duties of all of Brazil's citizens, governments and entities. Promulgated in 1988, it gave Brazilians a scope of civil rights strongly built on principles of democracy, freedom and welfare.

In addition to the Constitution, relations in Brazil are largely based on consolidated legislation, called codes. Each area of law is governed by its own code, such as taxation (National Tax Code); civil law (Civil Code); commercial law (Commercial Code); labor law (Consolidated Labor Laws), procedural law (Civil Procedure Code) and consumer defense (Consumer Defense Code).

Unlike the common law system used in countries such as the United States and some Com-

monwealth countries, Brazil's courts are less able to establish a legally binding precedent, as most decisions are applicable only to the parties concerned. There are, however, some examples of settled law (súmulas) issued by the superior courts that guide the rulings of lower courts. Binding rulings issued by the Federal Supreme Court must be followed by all lower courts and the government.

Alternative methods of dispute resolution, such as arbitration, conciliation and mediation, are options that have been especially promoted in Brazil since the issuance of the new Civil Procedure Code (CPC) in 2015, which implemented new rules in an attempt to promote extrajudicial agreements and ease the courts' workloads.

► Brazil's legal system and foreign investors

Free enterprise, private property and respect for contracts are some rights guaranteed by Brazilian legislation, governed primarily by the Federal Constitution and the Brazilian Civil Code of 2002. Domestic and foreign capital are treated equally and have the same duties and rights under Brazilian law, with the exception of the few areas in which foreign investment is restricted.

Parties are free to enter into contracts establishing mutual obligations at will. As long as an obligation is not illicit, in conflict with the law, immoral or impossible to fulfill, it is deemed valid. Exceptions to the general rule are:

► **The Principle of the Contract's Social Function** - "the liberty to contract shall be exercised by virtue of and limited by the contract's social function." (Article 421 of the Civil Code);

► **The Principle of Objective Good Faith** - "the parties are obliged to observe the principles of honesty and good faith in the contract's negotiation and execution." (Article 422 of the Civil Code).

TRANSPARENCY AND ANTI-CORRUPTION

The Federal Prosecution Office (MPF), established by the Constitution of 1988, and the Ministry of Transparency, Supervision and Controls (CGU), created in 2003, are examples of entities created by the Brazilian government to address corruption and transparency issues.

Additionally, in the past few years, some important laws regarding corruption and transparency have been approved, notably:

▶ **2010. The Clean Record Act (Lei da Ficha Limpa)**

Aims to prevent corruption in the legislature through an ineligibility clause preventing any person with a criminal conviction from holding public office for eight consecutive years;

▶ **2011. The Access to Information Act (Lei da Acesso à Informação)**

Ensures Brazilian citizens access to federal, state and municipal public documents;

▶ **2013. The Anti-Corruption Act (Lei Anticorrupção),**

Came into force in 2014, establishing direct civil liability for companies found guilty of bribery of both Brazilian and foreign public officials.

ANTI-CORRUPTION ACT OF 2013

WHAT FOREIGNERS

NEED TO KNOW

The most relevant change made by the Anti-Corruption Act was establishing civil and administrative liability for companies found guilty of unlawful acts (in Brazil or overseas) against the public administration. Until then, only partners or managers could be prosecuted, and they could plead ignorance of the fact if the infraction was proved to be an isolated action committed by someone else within the company.

Now, legal entities can be charged themselves for corrupt acts perpetrated against the government, whether by their directors, employees, or other agents acting on their behalf. The penalties range from fines to the compulsory dissolution of

the company. Forfeiture of benefits obtained, prevention of the company's participation in government contracts and suspension of activities are other possible penalties. Fines can be up to 20% of gross revenue.

Furthermore, the Anti-Corruption Act includes a leniency provision by which sanctions may be reduced for companies with effective compliance programs in place and those that self-report violations of the law to the authorities.

Foreign companies operating in Brazil are also subject to penalties for corrupt acts committed in Brazil.

SOURCES

- ▶ Organs of the Judiciary Power (in English)
 - » <http://www.brazilgovnews.gov.br/federal-government/how-the-government-works/federal-judiciary-branch>
- ▶ History of the Federal Prosecution Office (Portuguese only)
 - » <http://www.mpf.mp.br/conheca-o-mpf/sobre/historico-do-mpf>
- ▶ History of the Federal Comptroller General (CGU) (Portuguese only)
 - » <http://www.cgu.gov.br/sobre/institucional/historico>
- ▶ Brazilian Civil Code, Title V ("On Contracts in General") (Portuguese only)
 - » http://www.planalto.gov.br/ccivil_03/leis/2002/L10406.htm
- ▶ TSE: Four years of the Clean Record Act ("Lei da Ficha Limpa") (Portuguese only)
 - » <http://www.tse.jus.br/imprensa/noticias-tse/2014/Julho/lei-da-ficha-limpa-completa-quatro-anos-e-sera-aplicada-pela-primeira-vez-em-eleicoes-gerais>
- ▶ CGU's Anti-Corruption Act landing page (Portuguese only)
 - » <http://www.cgu.gov.br/assuntos/responsabilizacao-de-empresas/lei-anticorrupcao>

INTELLECTUAL PROPERTY

Brazil has solid rules regarding the protection of intellectual property (IP), also known as 'industrial property' in Brazil. It has a prominent international position in IP protection, being a member of the two main organizations in this field: the World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO). Brazil is also a signatory of treaties such as the Paris Convention, the Bern Convention, the Patent Cooperation Treaty and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Under Brazilian law, inventions, utility models, industrial designs, computer software, trademarks and geographical indicators are considered industrial properties. Natives and individuals born in countries that assure IP rights to Brazilians can apply for a patent in Brazil, as can companies.

The owner's protections are valid for 20 years, except for utility models, which last for 15 years.

Due to Brazilian efforts, more than 200,000 requests were filed in all categories of industrial property in 2016 alone. Here are some of the actions adopted by the government to continue to support and upgrade its intellectual property system:

- ▶ IP international standards have been duly incorporated into Brazil's legislation and, in some aspects, the country's domestic legislation provides protection beyond TRIPS requirements;
- ▶ The country has also established domestic laws protecting industrial design and IC layout design;
- ▶ Brazil adopted international trademark classification systems and examination standards;
- ▶ In 2016, Brazil acceded to the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents, which speeds up the processing of documents between signatories.

LEGAL INSTANCES

The main IP law in Brazil is the Industrial Property Act of 1996 (Law 9,279/96). The INPI (National Institute of Industrial Property) is the national agency responsible for maintaining and enforcing the Act – therefore, it controls IP request submissions and acceptances.

The Patent Cooperation Treaty can also serve as a reference when it comes to rights other than industrial designs. Medicines and health technologies, on the other hand, are evaluated by ANVISA, the Brazilian Health Regulatory Agency.

Under the terms of the Paris Convention, rights already submitted abroad may be recognized and enforced in Brazil if filed within a defined time limit.

Brazil is a party to the Berne Convention for the Protection of Literary and Artistic Works. Although protection is not necessarily dependent upon registration, copyright owners are encouraged to register their work. There are several registration bodies with authority for copyright registration in Brazil, such as the National Library and the National Council of Engineering, Architecture and Agronomy.

The National Institute of Industrial Property (INPI) is the agency responsible for registering agreements for the supply of technology, provision of specialized technical services (including technology transfer), patent licenses, trademark licenses and franchise agreements. The Brazilian Central Bank must also register franchise agreements, due to foreign currency payments.

ENFORCEMENT

IP infringements are crimes under the Brazilian Criminal Code. The Industrial Property Act prescribes penalties for those who break industrial property laws, including fines and imprisonment.

Property owners have many ways to proceed in order to pursue their rights, such as civil actions, criminal prosecutions or, when both parties are willing to participate in further dialogue, arbitration.

These procedures may be submitted to the judicial system anywhere in the country. If necessary, the city of Rio de Janeiro has specialized IP courts.

Brazilian Customs also participate in IP enforcement, as they can seize imported or exported goods that infringe Brazilian trademarks, copyrights and patents (such as false, modified or imitated trademarks).

TAXATION

The main guidelines for taxation in Brazil come from the Brazilian Constitution, which establishes the general principles, limitations on the power to tax, jurisdiction to tax at levels of government and tax revenue sharing provisions.

Taxation in Brazil occurs at three levels of government: federal, state and municipal. In broad terms, the main federal taxes cover excise duties, import and export duties, financial transactions, taxes on revenue, profits and income, as well as contribution charges that fund social security and employment benefits, managed by the Federal Revenue Service.

The main state-level tax is a VAT-type tax on the inter- and intrastate circulation of goods and services (ICMS). The main municipal taxes are real estate taxes (IPTU), stamp duty on real estate transfers (ITBI) and the services tax (ISS).

There are also regulatory taxes, like the IOF (Tax on Financial Transactions), the IPI (Tax on Manufactured Products) and the CIDE (Contribution of Intervention in the Economic Domain), which are levied on specified products and services and are used by the Federal Government as auxiliary instruments in conducting monetary and industrial policies, respectively.

SMALL AND MICRO COMPANY TAXATION

It is important to point out that micro and small businesses have special regimes with simplified and reduced taxes under programs such as "*Simples Nacional*" and the Individual Micro-Entrepreneur (MEI) program. "*Simples*" targets companies with gross revenue of up to BRL 3.6 million (BRL 4.8 million as of 2018) and includes most of their corporate taxes in a single payment. The MEI was created with a view to formalizing individual autonomous workers who earn up to BRL 60,000 (USD 19,100) a year, exempting them from federal contribution taxes in exchange for a fixed, small monthly fee (5% of the minimum wage).

CORPORATE TAXES

The current maximum consolidated effective tax rate on taxable income is 34%. It is a result of the two main direct corporate taxes: the corporate income tax (IRPJ) and the social contribution tax (CSLL). The latter is a 9% tax payable to the federal government (up to 20% if the companies in question are insurance or financial institutions), while the IRPJ is 15%, plus a 10% additional rate on any monthly income that exceeds BRL 20,000 (USD 6,400). On the other hand, dividends are tax-free in Brazil.

All foreign corporations must create a registered subsidiary, branch or permanent establishment in order to operate in Brazil. These legal entities, including those that are foreign controlled, must calculate and pay tax on a monthly basis and file an annual tax return consolidating the monthly results from the previous calendar year.

For tax purposes, business profits are calculated on the basis of net income, as reported on the income statement (profit and loss account) and adjusted for non-taxable income and non-deductible expenses.

Intercompany transactions are subject to transfer pricing rules.

Capital gains are taxed as ordinary income. The cash basis may be used to calculate profits on certain long-term sales of permanent assets. Capital losses may only be offset by capital gains. Unused capital losses are treated similarly to income tax losses with regard to limits on use and the carry-forward period.

Gains from the sale of depreciable property are treated as ordinary non-operating income and not as capital gains.

Corporate taxpayers may choose to include exchange gains and losses in their taxable income, on an accrual basis or on a cash basis.

Interest income is taxable on an accrual basis.

Royalties and service fees received by Brazilian residents are taxable on an accrual basis.

Companies participating in specific industries, such as banking, insurance and leasing, are subject to special tax rules.

Tax holidays are offered to certain industries operating in specific areas.

No tax consequences arise from converting a non-incorporated business into an incorporated entity or from changing corporate form, such as from a private limited liability company (*limitada*) to a corporation (*sociedade anônima*).

DIVIDENDS

Dividends are not subject to withholding income tax and neither is the recipient. When received from other domestic companies, including subsidiaries and affiliates, they are not subject to the corporate income tax. The payment of dividends in kind is not prohibited by corporate law, provided that specific rules and terms are clearly defined in the articles of incorporation or the payment is approved at the annual shareholders' meeting.

FOREIGN PERSONNEL

There is no legislation that favors foreign shareholders or holding companies. In Brazil, foreign workers are taxed as residents on their worldwide income, regardless of their visa type.

PARTNERSHIPS AND JOINT VENTURES

The procedures for the taxation of partnerships and joint ventures are similar to those for corporate taxpayers.

MAIN TAXES AND CONTRIBUTION TAXES IN BRAZIL

SERVICES

LEVEL	TAX	DESCRIPTION
MUNICIPAL	ISS	Services Tax – Varies from 2% to 5% (depending on the type of service) of the service price.
FEDERAL	INSS*	Social Security Contribution – 11%

**INSS is paid both by the employee, discounted from the gross salary (Service), and by employers, on total payroll (Payroll)*

PRODUCTS

LEVEL	TAX	DESCRIPTION
STATE	ICMS (STATE GOODS AND SERVICES TAX)	Intrastate rates are defined and levied by states on the circulation of goods within their borders. Standard intrastate rates vary between 17% and 25%. Interstate levels are generally levied at 7% and 12%; and 4% on imported goods (the final product must include more than 40% imported content).
FEDERAL	IPI (TAX ON MANUFACTURED GOODS)	Ranging from 0% to 300% (in the case of cigarettes) and generally ranging from 0% to 35%, depending on the product. Rates are defined by product code (HS code) and are specified in the IPI Tax Rates Table – TUPI .
FEDERAL	II (IMPORT DUTY)	Foreign merchandise entering Brazil must pay import duties ranging from 0% to 35%. Rates are contained in the Mercosur Harmonized Tariff Schedule (TEC).
FEDERAL	IE (EXPORT TAX)	Generally 30%, but it can be raised or lowered to meet the objectives of Brazil's exchange rate and foreign trade policies. The maximum rate can be raised up to 150%.
FEDERAL	IOF (TAX ON FINANCIAL TRANSACTIONS)	Levied on credit, exchange, insurance and financial transactions in general, ranging from 0% to 25%, depending on the transaction. The current IOF rate for exchange transactions (buying and selling dollars) is 1.1%. Payments abroad with Brazilian credit cards, prepaid cards and traveler's checks are subject to a 6.18% IOF rate.

SERVICES AND PRODUCTS

LEVEL	TAX	DESCRIPTION
FEDERAL	IRPJ (CORPORATE INCOME TAX)	At a rate of 15% on profit, plus an additional 10% on monthly income that exceeds BRL 20,000 (USD 6,400).
FEDERAL	PIS/PASEP (SOCIAL CONTRIBUTION ON GROSS REVENUE)	Used to fund unemployment insurance and the Workers' Assistance Fund. There are two different systems, depending on the tax calculation method chosen by the company. The Cumulative Regime (applied to legal entities collecting IRPJ by Presumptive Profit): 0.65% of gross revenue. Non-Cumulative Regime (IRPJ by Taxable Profit): 1.65% of gross revenue.
FEDERAL	COFINS (SOCIAL CONTRIBUTION TAX)	Used to fund social security. It is usually paid alongside PIS and uses the same systems. Cumulative Regime (IRPJ by Presumptive Profit): 3% of gross revenue. Non-Cumulative Regime (IRPJ by Taxable Profit): 7.6% of taxable revenue.
FEDERAL	CSLL (SOCIAL CONTRIBUTION TAX ON PROFIT)	9% (20% for financial institutions and 17% for credit unions) .

PAYROLL

LEVEL	TAX	DESCRIPTION
FEDERAL	FGTS (EMPLOYEE SEVERANCE INDEMNITY FUND CONTRIBUTION)	8% of employee's gross salary.
FEDERAL	INSS (SOCIAL SECURITY CONTRIBUTION)*	20% on total payroll.
FEDERAL	SAT/RAT (OCCUPATIONAL HAZARDS INSURANCE)	1% to 3% of payroll, according to the risk level of the activity.
—	THIRD PARTY CONTRIBUTION TAXES ("CONTRIBUIÇÃO A TERCEIROS")	Contributions paid for social entities and funds, according to business activities (determined by the FPAS code table)ⁱⁱⁱ. SESI/ SESC Social Programs, SENAI/SENAC Training Programs, SEBRAE Program for Small Companies and INCRA Supplementary rural pension are some of these entities. The amount per entity varies from 0.2% to 2.7% on total payroll.

*INSS is paid both by the employee, discounted from the gross salary (Service), and by employers, on total payroll (Payroll)

PROPERTY

LEVEL	TAX	DESCRIPTION
MUNICIPAL	IPTU (URBAN REAL ESTATE TAX)	There is no minimum or maximum rate established by federal law (it is therefore established by each municipality). Escalation criteria: location, value, use and social function.
FEDERAL	ITR (RURAL REAL ESTATE TAX)	Ranging from 0.03% to 20% (depending on land area and degree of land use)^{iv}.
MUNICIPAL	ITBI (STAMP DUTY ON REAL ESTATE TRANSFERS)	There is no minimum or maximum rate established by federal law (it is established by each municipality). Single rate, non-progressive regime.

Further information (available in Portuguese)

- ▶ Federal taxes administered by the Federal Revenue Service (*Receita Federal*)

<https://idg.receita.fazenda.gov.br/aceso-rapido/tributos>

- ▶ *Receita Federal*: Legislation by topic

<http://idg.receita.fazenda.gov.br/aceso-rapido/legislacao/legislacao-por-assunto/legislacao-por-assuntos>

Endnotes:

- I. TIPI in force by April 2017, established by Decree 8,950/2016 (Portuguese)
- II. Law 13,169/2015 raised the CSLL for financial institutions from 15% to 20% for banks and to 17% for credit cooperatives until December 2018.
- III. FPAS Table/2012 is determined by Normative Instruction RFB 1,238, of January 11, 2012. Appendix I and II.
- IV. For further information about Rural Property Taxation see FAQ by the Ministry of Finance ("Perguntas e Respostas ITR 2016"), at: http://www.cadastrorural.gov.br/cartilha-de-orientacoes/copy_of_itr-imposto-sobre-a-propriedade-territorial-rural

SOURCES

- ▶ Federal taxes administered by *Receita Federal* (Federal Revenue Service) (Portuguese only)

<https://idg.receita.fazenda.gov.br/aceso-rapido/tributos>

- ▶ *Receita Federal*: Legislation by topic (Portuguese only)

<http://idg.receita.fazenda.gov.br/aceso-rapido/legislacao/legislacao-por-assunto/legislacao-por-assuntos>

- ▶ "Corporate taxation: Taxes and Contributions in Brazil" - Deloitte (in English)

<https://www2.deloitte.com/br/en/pages/doing-business-brazil/articles/corporate-taxation.html>

- ▶ Questions & Answers - Legal Entity 2016 (*Receita Federal*) (Portuguese only)

<http://idg.receita.fazenda.gov.br/orientacao/tributaria/declaracoes-e-demonstrativos/ecf-escrituracao-contabil-fiscal/perguntas-e-respostas-pessoa-juridica-2016>

PROPERTY AND LAND

RURAL LAND

Foreigners are able to acquire real estate in Brazil, even without the involvement of local partners, but there are rules that must be observed when it comes to specific areas, such as maritime territory, islands, and areas near Brazil's international borders, regarded by the government as being crucial for security.

Brazilians and foreigners have similar rights and obligations when it comes to buying or leasing property. Properties can be registered only once, and that must happen at a registry of deeds (*Cartório de Registros Imobiliários*) located in the same jurisdiction as the property. The resulting document must contain all required information about the property, such as its transaction history and physical identification. It is important to note that these records are always public. Registry costs vary from one state to another.

These are some of the requirements to purchase property in Brazil:

- ▶ It is necessary to have a CNPJ/CPF (Corporate/ Individual Taxpayer Identification Number, respectively) provided by the Federal Revenue Service; a birth certificate translated into Portuguese by a sworn translator and authenticated by the Brazilian Consulate in the country of origin; and a valid passport or National Registry of Foreigners (RNE) card. If the foreigner is married, the spouse's CPF must also be submitted.
- ▶ Although it is not mandatory, it is advisable to obtain legal support from an attorney, as well as a real estate agent registered at CRECI, the professional organization regulating professional property managers and real estate brokers.
- ▶ Only foreigners with a permanent visa may apply for a mortgage in Brazil. More information can be found at: http://www.bcb.gov.br/pre/bc_atende/port/investimento.asp

SOURCES

- ▶ http://www.bcb.gov.br/pre/bc_atende/port/investimento.asp
- ▶ http://www.planalto.gov.br/ccivil_03/leis/L5709.htm

ACQUISITION/ LEASING

Regarded as prized assets by many, rural properties in Brazil can be purchased or leased by foreigners, with certain legal limitations, especially concerning size.

To buy rural property in Brazil, foreigners must have a permanent visa and already have an urban property as an established residence. For purposes of rural land acquisition or leasing, foreigners in Brazil are foreign individuals who are not naturalized, even if they are married to a Brazilian citizen with community property and have Brazilian children.

Corporations whose capital originates from another country, even with permission to operate in Brazil, also face limitations imposed by law. This is also the case for Brazilian corporations in which foreigners control the majority of the capital, whether they are individuals or corporations, residing or having headquarters in Brazil or abroad.

The agency that regulates the size of the MEI (undefined exploration module), the Undefined Land Holding Units, is the National Institute of Colonization and Agrarian Reform (INCRA).

INDIVIDUALS

There are some conditions related to the leasing or acquisition of land by foreign individuals, especially when it comes to the size of the property.

The area foreigners are allowed to purchase is limited to 50 MEIs. One MEI varies between 5 and 100 hectares, depending on the value stipulated by each municipality in which the land is located.

If the property is smaller than 3 MEIs, authorization from INCRA is not required, excepting only the restrictions imposed by law regarding important areas for national security. In these cases, approval from the National Defense Council is necessary.

In the case of properties between 3 to 20 MEIs, INCRA authorization becomes mandatory, but not for the land-use plan (see more information below). For properties bigger than 50 MEIs, the Brazilian Congress must authorize the acquisition.

COMPANIES

Foreign companies may acquire properties up to 100 MEIs and must present a land-use plan to INCRA to obtain its permission regardless of the size of the land. If the property is larger than 100 MEIs, the purchase must be authorized by the Brazilian Congress.

It is also important to note that the total of the properties purchased or leased by foreigners, whether individuals or companies, in any one municipality cannot exceed 25% of the total area of the municipality. Furthermore, the combined area of properties owned by foreigners of the same nationality cannot be larger than 10% of the municipality's area.

► The main requirements for the acquisition and leasing of land by foreigners in Brazil are:

INDIVIDUALS

COMPANIES

BEING A PERMANENT RESIDENT IN BRAZIL AND BEING ENROLLED IN THE NATIONAL REGISTRY OF FOREIGNERS – RNE UNDER PERMANENT STATUS.

Registration at the Commercial Registry Office (Junta Comercial) in the Brazilian State where it has its headquarters – in the case of Brazilian corporations controlled by foreigners, whether they are individuals or legal entities, residing or with headquarters abroad.

PROVIDING A LAND-USE PLAN (ONLY FOR AREAS ABOVE 20 MEIS).

Official authorization to operate in Brazil, in the case of a foreign legal entity, that is, one in which foreigners control all capital.

LIMIT: 50 MEIS.

Clear provision in its articles of incorporation regarding agriculture, livestock, forestry, tourism, industry or settlement activities.

-

Providing a land-use plan, regardless of the size of the area to be acquired or leased.

-

LIMIT: 100 MEIS

LAND-USE PLAN

When required, for properties above 20 MEIs a land-use plan must be submitted to INCRA and, depending on the nature of the endeavor, it may be forwarded to other government departments, such as the Ministry of Tourism and the Ministry of Industry, Foreign Trade and Services. The plan must contain the following information:

- ▶ **Justification of the proportionality between the amount of land to be acquired and size of the project;**
- ▶ **Physical and financial schedule for investment and implementation;**
- ▶ **Possible use of official credit to finance all or part of the venture;**
- ▶ **Logistical feasibility for project implementation and, in the case of an industrial project, capacity to demonstrate the compatibility of the land location with the type of plant to be built;**
- ▶ **Proof of compliance with the criteria for Ecological and Economic Zoning of Brazil (ZEE), which is a policy tool used to guide land use. The ZEE establishes, for example, which crops are best suited economically for growing in a given part of the country, taking into account measures and standards of environmental protection and biodiversity.**

Projects must also be assessed by the Ministry of Agriculture, Livestock and Food Supply (MAPA). Final authorization depends on INCRA's decision.

DISCUSSIONS ARE UNDERWAY AT THE FEDERAL LEVEL TO REMOVE SIZE LIMITATIONS FOR LAND ACQUISITION BY FOREIGNERS, WITH ONLY SOME RESTRAINTS AS TO THE MUNICIPALITY'S TOTAL AREA.

ENVIRONMENTAL POLICY, REGULATION AND LICENSES

The Ministry of the Environment is the main institution concerned with environmental policy in Brazil. It is responsible for formulating policies on climate change and environmental quality, biodiversity and forests, water resources, and sustainable urban and rural development.

Besides the ministry, Brazil's government includes other agencies assigned to implement environmental laws and ordinances in different areas. Examples are the National Council of the Environment (CONAMA), the National Council of the Amazon, the National Council of Water Resources, the Chico Mendes Institute for Biodiversity Conservation (ICMBIO), the Brazilian Environmental Protection Agency (IBAMA) and the Public Forest Management Council.

Among those agencies, IBAMA is responsible for implementing new policies and standards for environmental quality, evaluating environmental impact, examining environmental degradation

and issuing environmental licenses. It also has administrative and financial autonomy, with authority to give authorizations or apply fines. In the case of serious environmental crimes, it is responsible for referring the matter to federal authorities for further prosecution. More information can be found at www.ibama.gov.br.

Brazil is a global leader in tackling environmental issues and has a long history of environmental protection. Its first Forest Code was implemented in 1934. In 2012, the Code was updated to better suit current Brazilian reality.

The mainstay of Brazil's environmental policy is strict liability for factories, which are made accountable for the pollution they cause. Subsequent legislation has authorized public prosecutors and NGOs to act in defense of the environment, and a number of regulations regarding conservation, environmental licensing, and oil and gas exploration and production have been implemented.

ENVIRONMENTAL LICENSING

Before starting an industrial, infrastructure or agricultural project in Brazil, it is necessary to obtain an environmental license, which is part of a general process to obtain environmental clearance for a project. Some commercial developments may also require this license, depending on zoning laws in a given municipality.

The main goal is to analyze the potential impact new undertakings may have on the ecosystem and avoid harm to the environment.

The Brazilian Congress is currently working on new general legislation regarding licensing, which would speed up the process by reducing bureaucracy. Among the topics being discussed is the possible waiver of licenses for undertakings unlikely to represent any danger to the environment.

Currently, the licensing process starts at IBAMA. There are three main categories of licenses:

- » *Provisional License (LP)*
- » *Building License*
- » *Operating License (LO)*

These can be issued individually or in succession, according to the nature, characteristics and phase of the enterprise or activity.

PHASE 1

The Provisional License is valid for up to 5 years and does not guarantee the building of the project. Its main goal is to study the feasibility of the enterprise based on activity, location and environmental impact. This document will set out the basic requirements and standards that need to be met in the subsequent phases of the licensing process, taking into account different project alternatives and proposals submitted by applicants.

During the provisional licensing phase, the applicant is required to submit a proposal as a "Terms of Reference" (TR) document to IBAMA in order to prepare environmental impact studies. Once the TR is approved, the applicant should then prepare an Environmental Impact Assessment (EIA) and Environmental Impact Report (RIMA).

Following submission of the EIA and RIMA, as well as a public hearing on the project, the applicant is issued with a provisional environmental license, which allows work on the project to begin.

For enterprises and activities that do not entail a significant impact on the environment, IBAMA may waive the provisional licensing phase and require instead a Simplified Environmental Assessment (EAS) and an Environmental Control Plan (RAP).

WORKFLOW

TERMS OF REFERENCE (TR)



ENVIRONMENTAL IMPACT
ASSESSMENT (EIA) + ENVIRONMENTAL
IMPACT REPORT (RIMA)



PROVISIONAL LICENSE



**BUILDING LICENSE
(CONSTRUCTION WORK)**



**OPERATION
LICENSE**



(REPORTS AND INSPECTIONS)

PHASE 2

Once the LP is granted, the second phase begins. The Building License is valid during the period of the construction work but it has a limit of 6 years. The work must comply with the specifications contained in previously approved construction projects and plans.

PHASE 3

Before the beginning of operations, it is necessary to obtain an Operating License (LO).

This will happen after an inspection is made by local authorities to certify that all necessary measures were taken to protect the environment. This also includes numerous reports that detail environmental mitigation measures, as well as those which were not included or were not sufficiently explained during the Building Permit application process.

During the entire process, IBAMA may consult other agencies, such as institutes which protect historic heritage, environmental institutions and populations affected by the project, in order to make its decision.

VISAS

BUSINESS VISAS

Before making any travel arrangements to Brazil, investors should check whether they will require a visa. Currently, Brazil has agreements with nearly 90 countries for visa exemptions supported by the principle of reciprocity adopted by the Brazilian government. Visa requirements by country can be found at this link: http://boston.itamaraty.gov.br/en-us/visa_requirements_by_country.xml (English).

Citizens from countries that are not exempt from visa requirements are advised to apply for a business visa at the Brazilian consulate in their country of origin. A business visa allows for a maximum stay of 90 days, which can be extended for an additional 90 days by making a request to the Federal Police. They are valid for up to 5 years under current immigration legislation.

RESIDENCE VISA

In 2017, a new Immigration Law was approved by the Brazilian Congress, altering some requirements for requesting permanent visas, though some details are yet to be decided. Brazil will now issue residence visas to stateless individuals whose life may be at risk, foreigners whose countries are affected by war, conflicts or natural disasters, people submitted to slave labor conditions, and victims of human trafficking.

Some traditional residence visas are still being granted, such as family reunion visas. Anyone who marries or has a civil union with a Brazilian or immigrant who has a temporary or permanent residence visa is entitled to obtain a permanent residence visa. These are valid for both heterosexual and same-sex couples. Foreigners who have Brazilian siblings or are legally responsible for Brazilian children may also obtain permanent residence.

INVESTORS

Non-Brazilians who intend to invest in activities with economic, social, scientific, technological or cultural value, generating jobs and wealth in Brazil, may also apply for a residence visa, as well as those who have received job offers in Brazil, under new legislation.

Investors who plan to invest at least BRL 500,000 (USD 160,000) in foreign currency in Brazil and present plans to create new jobs can receive a permanent visa. For investments in technology and R&D activities, applicants may be eligible for investments of at least BRL 150,000 (USD 48,000).

It is worth noting that having assets or properties in Brazil does not necessarily grant automatic permanent residence visas.

BRVA

ESTABLISHING
a BUSINESS IN



MAIN TYPES OF CORPORATE STRUCTURES

1.

SOLE PROPRIETORSHIP LIMITED LIABILITY COMPANY - EIRELI

*("Empresa Individual de
Responsabilidade Limitada")*

Rules regarding the creation of this type of corporate structure are available in the Official Registry Manual 2017 (DREI Normative Ruling 38/2017, Appendix V, in Portuguese only)

<http://drei.smpe.gov.br/legislacao/instrucoes-normativas/titulo-menu/pasta-vacatio/anexo-v-manual-de-registro-eireli.pdf>

(Portuguese only)

1. APPLICABLE LEGISLATION

- ▶ Law 12,441/2011, which amends provisions of the Brazilian Civil Code;
- ▶ Normative Ruling 10, of December 5, 2013 (IN DREI 10/2013), issued by the Department of Business Registration and Integration (DREI), establishing the Manual on Registry Acts for each different type of company. Amended by Normative Ruling 38, of March 6, 2017 (IN DREI 38/2017).

2. CLASSIFICATION

- ▶ Individual company;
- ▶ For profit.

3. **LEGAL NAMEⁱ**

- ▶ Firm Name ("Firma"): Proprietor's full name, followed by "Eireli"
- ▶ Corporate Name ("Denominação"): Corporate purpose, followed by "Eireli"

4. **OWNERS**

- ▶ Only one proprietor; a one-person undertaking (meaning that once the individual opts for an Eireli, he/she can run only one company of that type);
- ▶ Individual of Brazilian or **foreign originⁱⁱ**

5. **ARTICLES OF ORGANIZATION/ INCORPORATIONⁱⁱⁱ**

- ▶ Articles of Organization/Bylaws;
- ▶ Registration and filing at the Commercial Registry Office ("Junta Comercial") of competent jurisdiction

6. **CORPORATE CAPITAL**

- ▶ Given that the company relies on a sole proprietor, capital is not required to be divided into units of ownership;
- ▶ The minimum capital required cannot be less than one hundred times the sum of the highest minimum salary applied in Brazil on the date of filing for registration;
- ▶ Once it is immediately paid in, capital may be increased at any time;
- ▶ Capital may be reduced, as long as the minimum value required by law is maintained.

7. **PAYING IN**

- ▶ Statement, in the articles of incorporation, that capital has been fully paid in;
- ▶ Any assets can be used for payment, provided they are susceptible to cash valuation.

8. **OWNER/PARTNER LIABILITY**

- ▶ Limited to paid-in capital;
- ▶ Unlimited: in case capital is as of yet unpaid, not observing the minimum capital requirement.

9. **CONTROL AND MANAGEMENT**

- ▶ Control exercised by the sole proprietor;
- ▶ An Eireli can be managed by one or more people, whether the owner or a non-owner, as indicated in the incorporation document. A corporate entity cannot be a manager;
- ▶ A foreigner may be appointed as manager, provided that he/she has a permanent visa and is not otherwise prevented from holding management positions. Citizens from Mercosur countries (Argentina, Paraguay and Uruguay) and associated nations (Bolivia and Chile) who hold a 2-year Temporary Residence visa can be both owner and manager of an Eireli, respecting IN DREI 34/2017^{iv}.

10. **TERMINATION/DISSOLUTION**

- ▶ Compliance with limited liability company rules, wherever applicable.

2.

LIMITED LIABILITY COMPANY (LTDA.)

("Sociedade Limitada")

Rules regarding the establishment of this type of corporate structure are available in the Official Registry Manual 2017 (DREI Normative Ruling 38/2017, Appendix II, in Portuguese only)

<http://drei.smpe.gov.br/legislacao/instrucoes-normativas/titulo-menu/pasta-vacatio/anexo-ii-manual-de-registro-sociedade-ltda.pdf>

(Portuguese only)

1. APPLICABLE LEGISLATION

- ▶ Brazilian Civil Code (Law 10,406/2002; from Article 1,052 to Article 1,087);
- ▶ Normative Ruling 10, of December 5, 2013 (IN DREI 10/2013), issued by the Department of Business Registration and Integration (DREI), establishing the Manual on Registry Acts for each different type of company. Amended by Normative Ruling 38, of March 6, 2017 (IN DREI 38/2017).

2. CLASSIFICATION

- ▶ Business company formed by individuals or capital;
- ▶ For profit.

3. LEGAL NAME

- ▶ Firm Name ("Firma"): Name of one or more of the company's partners, with "e companhia" (& Cia) and "limitada" (Ltda.), in full or abbreviated;
- ▶ Corporate Name ("Denominação"): Corporate purpose followed by "limitada" (Ltda.), in full or abbreviated.

4. OWNERS

- ▶ Two or more partners
- ▶ Individuals or legal entities, of Brazilian or foreign origin^v.

5. ARTICLES OF ORGANIZATION/ INCORPORATION^{vi}

- ▶ ▶ Articles of Organization/Bylaws;
- ▶ Registration and filing at the Commercial Registry Office ("Junta Comercial") with jurisdiction

6. CORPORATE CAPITAL

- ▶ Divided into membership units;
- ▶ No minimum capital requirement;
- ▶ An increase of the capital is allowed, providing all subscribed membership units are paid in;
- ▶ The capital may be subject to reduction in the following cases:
 - » (i) the occurrence of losses; or
 - » (ii) capital is excessive for the company's corporate purpose.

7. PAYING IN

- ▶ The articles of incorporation must establish the means and deadline for payment;
- ▶ Any assets can be used for payment, provided they are susceptible to cash valuation.

8. OWNER/PARTNER LIABILITY

- ▶ Limited to paid-in capital;
- ▶ If the capital has not been fully paid in, the partners have unlimited, joint liability.

9. CONTROL AND MANAGEMENT

- ▶ Control defined by number of membership units
- ▶ Resolutions are made during meetings (up to 10 partners) or general meetings (more than 10 partners);
- ▶ The company can be managed by one or more people, whether partners or non-partners, as indicated on the incorporation document;
- ▶ The company can be managed by a non-partner if unanimously approved by partners when capital has not been paid in, or if approved by two-thirds when capital is fully paid in;
- ▶ A foreigner can be appointed as manager, provided that he/she has a permanent visa and is not otherwise prevented from holding management positions. Citizens from Mercosur countries (Argentina, Paraguay and Uruguay) and associated nations (Bolivia and Chile) who hold a 2-year Temporary Residence visa can be both owner and manager of an LLC, respecting IN DREI 34/2017^{vii}.

10. TERMINATION/DISSOLUTION

- ▶ Dissolution occurs in the following cases (under Article 1,033; Article 1,034; and Article 1,087 of the Brazilian Civil Code):
 - » *(i) at the end of its term;*
 - » *(ii) unanimous resolution of all members;*
 - » *(iii) resolution of members representing an absolute majority, in companies with an open-ended duration;*
 - » *(iv) insufficient plurality of members;*
 - » *(v) expiration of company's license to operate;*
 - » *(vi) court decision; and*
 - » *(vii) bankruptcy.*
- ▶ Judicial or extrajudicial liquidation will take place after the company is terminated. The remaining assets will be distributed to the members proportionally to their respective membership units.

3.

JOINT-STOCK COMPANY/ CORPORATION (S.A. OR CIA.)

("Sociedade Anônima")

Rules regarding the establishment of this type of corporate structure are available in the Official Registry Manual 2017 (DREI Normative Ruling 38/2017, Appendix III, in Portuguese only)

<http://drei.smpe.gov.br/legislacao/instrucoes-normativas/titulo-menu/pasta-vacatio/anexo-iii-manual-de-registro-sociedade-anonima.pdf>

(Portuguese only)

1. APPLICABLE LEGISLATION

- ▶ Law 6,404/1976, a.k.a. "Lei das S.A.", supplemented by Law 10,303/2001.
- ▶ Normative Ruling 10, of December 5, 2013 (IN DREI 10/2013), issued by the Department of Business Registration and Integration (DREI), establishing the Manual on Registry Acts for each different type of company. Amended by Normative Ruling 38, of March 6, 2017 (IN DREI 38/2017)

2. CLASSIFICATION

- ▶ Business corporation formed by either public or private capital (either publicly traded or closely held companies);
- ▶ For profit.

3. LEGAL NAME

- ▶ Corporate Name ("Denominação"): Fictitious business name and/or the name of the founder, shareholders or people involved, with "sociedade anônima" (S.A.) or "companhia" (Cia.), in full or abbreviated. The latter cannot be placed at the end of the legal name.

4. OWNERS

- ▶ At least two shareholders for closely held companies and three for publicly traded ones;
- ▶ Individuals or legal entities, of Brazilian or foreign origin^{viii}.

5. ARTICLES OF ORGANIZATION/ INCORPORATION^{ix}

- ▶ Articles of Incorporation/Bylaws;
- ▶ Registration and filing at the Commercial Registry Office ("Junta Comercial") with jurisdiction

6. CORPORATE CAPITAL

- ▶ Divided into shares;
- ▶ No minimum capital requirement, but shareholders must pay in at least 10% of the issuance price of the shares subscribed for in cash;
- ▶ The bylaws will establish the number of shares, and whether the shares will have a par value or not;
- ▶ Capital may be increased in the following cases:
 - » Issuance of shares provided for in the bylaws;
 - » Conversion of bonds (debentures) and equity certificates into shares;
 - » Resolution of the Annual General Meeting regarding capitalization or reserves or issuance of new shares;
- ▶ The capital may be reduced in the case of a loss or capital that is excessive for the company's corporate purpose.

7. PAYING IN

- ▶ The bylaws must establish the deadline for payment;
- ▶ Any assets can be used for payment, provided they are susceptible to cash valuation.

8. OWNER/PARTNER LIABILITY

- ▶ No liability: shares subscribed and paid in;
- ▶ Limited to the shares shareholders have subscribed for and have not yet paid in.

9. CONTROL AND MANAGEMENT

- ▶ Control defined by shareholders with voting rights. The controlling shareholder owns a majority of the voting capital;
- ▶ In compliance with company's bylaws, corporate management will be performed by the board of directors ("Conselho de Administração") and the executive committee ("Diretores"), or solely by the Executive Committee;

- ▶ The chair of the executive committee, whether a shareholder or not, must reside in Brazil;
- ▶ The members of the board of directors may reside abroad, provided they appoint a representative resident in Brazil.

10. TERMINATION/DISSOLUTION

- ▶ Dissolution comes into effect either by court order or by the ruling of administrative authorities with jurisdiction. Incorporation, merger and spinoff are forms of dissolution;
- ▶ Judicial or extrajudicial liquidation will take place after the company is terminated. The remaining assets will be distributed to the shareholders proportionally to their respective shares.

Endnotes:

- I. For further information about companies' legal names see Normative Ruling DREI 15/2013 (I.N. DREI 15/2013). *(In Portuguese)*.
- II. For further information about foreigner participation see Normative Ruling DREI 34/2017 (I.N. DREI 34/2017). *(In Portuguese)*.
- III. For further information about companies' incorporation see Normative Ruling DREI 35/2017 (I.N. DREI 35/2017). *(In Portuguese)*.
- IV. For further information about foreigner participation see Normative Ruling DREI 34/2017 (I.N. DREI 34/2017). *(In Portuguese)*.
- V. For further information about ownership by foreigners see Normative Ruling DREI 34/2017 (I.N. DREI 34/2017). *(In Portuguese)*.
- VI. For further information about company incorporation see Normative Ruling DREI 35/2017 (I.N. DREI 35/2017). *(In Portuguese)*.
- VII. For further information about ownership by foreigners see Normative Ruling DREI 34/2017 (I.N. DREI 34/2017). *(In Portuguese)*.
- VIII. For further information about ownership by foreigners see Normative Ruling DREI 34/2017 (I.N. DREI 34/2017). *(In Portuguese)*.
- IX. For further information about company incorporation see Normative Ruling DREI 35/2017 (I.N. DREI 35/2017). *(In Portuguese)*.

FURTHER INFORMATION

Department of Business Registry and Integration (DREI) of the Special Secretariat for Micro & Small Enterprises (SEMPE)

- ▶ drei.smpe.gov.br *(Portuguese only)*
- ▶ www.smpe.gov.br *(Portuguese only)*

HIRING EMPLOYEES

The Consolidation of Labor Laws, the “CLT,” was promulgated in 1943 and is still the main piece of legislation governing employment contracts in Brazil. Alongside the Brazilian Constitution (1988) and subsequent legislation, the CLT establishes workers’ and employers’ duties, rights and protections and is the basis for labor relations, both in regard to the relationship between labor unions and employers and individual employees and employers.

Those hired under the CLT regime – some 50% of Brazil’s active labor force – are called “*celetistas*”. They form what is usually referred to as the country’s “formal employees” or “registered employees,” as all of them, including foreigners, must have a social security booklet (“*Carteira de Trabalho*”) in which the terms of employment must be recorded by the employer.

Other types of professionals are public servants, autonomous professionals and corporate entities (generally a single-owner company providing services as a legal entity). Public servants have their own special regulations, while the other two can provide regular services for a company or employer as long as there are no characteristics of an employment relationship (such as daily regularity or subordination). Rural and domestic workers also have their own set of regulations.

Outsourcing (“*terceirização*”) companies’ activities is a legal practice in Brazil and it has undergone important changes in 2017. In March, the government sanctioned a new law, the “Outsourcing Law” (Law 13,429/2017), allowing unlimited outsourcing for businesses, including of their core activity (“*atividade fim*”). Before that, only non-core activities (“*atividades meio*”) were allowed to be outsourced, such as maintenance, cleaning or security. The Outsourcing Law is a part of a bigger plan of structural reforms that the government has been endeavoring to approve in 2017 in an attempt to modernize and simplify Brazil’s complex business environment.

THE CLT

CLT rules make no distinction between skilled and unskilled workers or between those engaged in manual, office or professional work. A change in the legal structure or ownership of an employer does not affect the rights acquired by employees under the labor laws. Minimum wage, maximum hours, overtime pay, paid leave and holidays are some of the benefits assured to registered workers by CLT.

Employers must keep official records or cards containing detailed information about each employee. Each year they must file returns listing all employees to the local office of the Ministry of Labor (www.mte.gov.br), including reporting the number of foreigners and underage workers. Companies are allowed to employ foreign workers up to a limit of 1/3 of their total staff.

According to the CLT, substance is more important than form, meaning that implied circumstances or mere verbal arrangements are enough to constitute an employment relationship. Nevertheless, it is a usual and recommended practice to formalize a written document clarifying rules for all parties. The document may specify matters such as any forms of special compensation, fringe benefits, confidentiality and non-competition agreements, in addition to those terms already assured by law.

Employment agreements are generally in force for an indefinite term. Employees can be hired for a fixed term only up to two years and in a few special circumstances, namely: **(i) for services of a nature or time frame that justifies establishing a termination date; (ii) for transitory business activities,** and **(iii) for trial employment contracts¹.** Some situations in which these circumstances apply can be found at construction firms, which need temporary workforces for specific projects, or businesses with seasonal peaks, such as retail or tourism services. Employers have the burden of proof in these circumstances, otherwise the employment relationship must follow the standard, indefinite term contract rules.

According to **law¹**, any change to employment conditions **(i) requires the employee's express consent;** and **(ii) must not cause him or her any loss (financial or otherwise).**

Disputes related to employment relationships are decided by Labor Courts ("*Justiça do Trabalho*") which are present in all states of Brazil and are headed by the Superior Labor Court (TST).

LAW REFORM

Renewing conditions for business, investment and job creation in Brazil has been a government priority and several bills have been proposed since 2016. The pension system, taxes and budgetary governance are some areas under review.

In December 2016, the Office of the President presented its proposal for labor law reform, with measures intended to ease several points of the CLT. One of the most important changes, if approved, would put collective bargaining agreements between unions, employees and companies above the terms of the law, meaning that issues such as vacation, length of the work day, lunch breaks and home-office activities, which are currently established by law, would become flexible and decided on a case-by-case basis.

BENEFITS

The Federal Constitution and CLT provide for a series of minimum benefits that will remain untouched by the reforms and must be granted by employers to their employees throughout the employment relationship. Some of these minimum benefits are:

1. ▶ MINIMUM WAGE

- ▶ The Federal Government is responsible for establishing the minimum wage that must be paid to employees. No employee in Brazil can receive less than the minimum wage. The minimum wage is reviewed and adjusted each year.
- ▶ Additionally, each category of workers (e.g., salesmen, drivers, doctors, etc.) has a professional minimum wage, which cannot be lower than the minimum wage established by the federal government. Wage rates set by local labor unions are typically higher than the general minimum wage.
- ▶ Each state can also establish a local minimum wage by law.

2. ▶ MAXIMUM HOURS/OVERTIME PAY

- ▶ Regular working hours are limited to 8 hours per day and 44 hours per week. Under the new proposal presented by the government in December 2016, as long as the weekly limit of 44 hours is respected, the employees' regular work schedule can be increased by overtime hours, which cannot exceed the legal limit of two hours per day.
- ▶ Overtime work during business days requires an additional overtime payment of at least 50% more than the regular rate. Work on Sundays and holidays requires a permit from the Ministry of Labor and a minimum overtime payment of at least 100% more than the regular rate. Collective bargaining agreements can provide for higher overtime payments.

3. ▶ PAID LEAVE

- ▶ In Brazil, every employee is entitled to an annual 30-calendar day paid leave, in addition to holidays occurring during the year. The employee's vacation right is acquired after one year of continuous employment. The leave must be taken in the course of the 12 months following the anniversary date of employment. If the employee does not take his or her vacation by the deadline, the company must pay double compensation for it.
- ▶ The Brazilian Constitution also provides that employers must pay an additional 1/3 of the monthly salary as a vacation bonus during the month the employee is on vacation.

4. ▶ PAID HOLIDAYS

- ▶ The following are the national legal paid holidays that must be observed. As mentioned above, an employee required to work on any of these holidays must be paid at the rate of at least 100% over his or her normal wage.
- ▶ New Year's Day | January 1;
- ▶ Carnival | varies, February;
- ▶ Good Friday/Easter | varies, April;
- ▶ Tiradentes Day (Brazilian Martyr for National Independence) | April 21;
- ▶ Labor Day | May 1;
- ▶ Corpus Christi | varies, June;
- ▶ Independence Day | September 7;
- ▶ Our Lady of Aparecida | October 12;
- ▶ All Souls' Day | November 2;
- ▶ Republic Day | November 15;
- ▶ Christmas Day | December 25.
- ▶ There are also paid state and municipal holidays.

5. **▶ CHRISTMAS BONUS ("13TH SALARY")**

- ▶ The Constitution also provides that all employers must pay a Christmas Bonus, which is better known as the "13th salary." This is an additional monthly salary payment each year. This payment is made in two installments: the first is paid between February and November of each year and the second installment is paid on or before December 20. The Christmas Bonus is paid based not on the base salary, but on the employee's entire compensation, including the usual overtime and bonuses.

6. **▶ HEALTH AND SAFETY**

- ▶ Although the CLT contains a chapter that deals exclusively with health and safety matters, the Ministry of Labor publishes administrative rules that establish specific provisions in connection with, among other matters, prevention of and protection from accidents, personal safety equipment, building safety requirements, transportation and handling of materials, hazardous work conditions, and environmental contamination.
- ▶ Also, some employers must establish an internal accident prevention committee in every facility. This committee is made up of representatives of the employer and the employees and must hold periodic meetings to prevent on-the-job accidents.

7. ▶ PAID MATERNITY LEAVE

- ▶ Female employees in Brazil are entitled to a 120-day paid maternity leave. The payment of salary during maternity leave is made by the employer, who may offset the corresponding amount against Social Security charges.
- ▶ Possibility for up to 180-day paid maternity leave under legislation, depending on the company.
- ▶ Minimum paternity leave of 5 days, up to 20 days, depending on the company.
- ▶ Under the CLT, an employer cannot dismiss pregnant employees from the confirmation date of the pregnancy until at least five months after the birth.

Finally, in addition to the rights established above, employers may voluntarily provide further benefits at their discretion. In Brazil, employers usually provide health care plans and life insurance policies to their employees. Most usual fringe benefits granted to employees (i.e., health insurance, pension fund, life insurance, education, etc.) are not considered salary for any purpose.

Endnotes:

- I. As defined by CLT (DEL 5452/1943), Article 443
- II. As defined by CLT (DEL 5452/1943), Article 468

SOURCES

- ▶ Consolidation of Labor Laws (Decree 5,424/1943) (Portuguese only)
http://www.planalto.gov.br/ccivil_03/decreto-lei/Del5452.htm
- ▶ “Portal Brasil”: CLT rules individual or collective employment relationships (Portuguese only)
<http://www.brasil.gov.br/cidadania-e-justica/2012/03/clt-rege-relacoes-de-trabalho-individuais-ou-coletivas>
- ▶ Presidency News: President Temer partially sanctions “Outsourcing Law” (March 2017) (Portuguese only)
<http://www2.planalto.gov.br/acompanhe-planalto/noticias/2017/03/presidente-temer-sanciona-parcialmente-lei-da-terceirizacao>
- ▶ Outsourcing Law (Law 13,429/2017) (Portuguese only)
http://www.planalto.gov.br/ccivil_03/_ato2015-2018/2017/lei/L13429.htm
- ▶ Sebrae: How to hire employees for a fixed term (Portuguese only)
<https://www.sebrae.com.br/sites/PortalSebrae/ufs/ap/artigos/como-contratar-um-funcionario-por-tempo-determinado,1a48b65da6b6c410VgnVCM1000003b74010aRCRD>
- ▶ Presidency News: Government improves labor legislation without harming rights (December 2016) (Portuguese only)
<http://www2.planalto.gov.br/acompanhe-planalto/noticias/2016/12/-governo-aprimora-legislacao-trabalhista-sem-comprometer-direitos-affirma-ministro>
- ▶ Labor Reform Bill (PL 6787/2017)
<http://www.camara.gov.br/proposicoesWeb/fichadetramitacao?idProposicao=2122076>

STEP-BY-STEP GUIDE

Creating a company in Brazil might involve dealing with some red tape, either regarding registration, hiring people or even how to properly deal with minor paperwork. This is why this guide lists some good practices for investors wanting to settle in Brazil. These are the main points:

- ▶ It is highly advisable to confirm whether you need to obtain prior authorization from public agencies to perform your business activities in Brazil. You must also check if there is not a company already registered with the same name.
- ▶ Afterwards, you must choose which corporate structure best suits your business. In this guide, you can find a chapter including the different characteristics of the main forms of companies in Brazil.

▶ It is important to hire a local accountant to help you through the processes of opening a company. The accountant is responsible for taking all documents to the local Commercial Registry Office in the Brazilian state where you intend to open the company and having them filed.

Here is a list of the documents you may be required to present:

- ▶ Articles of incorporation/company by-laws. At this time you also need to select the method for calculating taxes (Simplified System for Small Businesses – called Simples Nacional; the taxable income system; or the estimated profit system). You also need to provide the company's name and designate the Brazil-based administrator of the company at this time. Engaging local legal assistance is highly recommended in order to prepare the articles of incorporation/bylaws;
- ▶ Power of attorney for the company's Brazilian representative;
- ▶ Copies of the personal documents of the associates, including visas (when appropriate) and the address where the company will be established;

- ▶ Corporate taxpayer ID number (CNPJ), which is issued by the Federal Revenue Service (Receita Federal);
- ▶ State and municipal taxpayer registries;
- ▶ Municipal license and/or operation permit (alvará and/or licença de funcionamento);
- ▶ Registration documents from the Brazilian Institute of Social Security (INSS) and Special Fund for Unemployment (FGTS).

All the documents must be in Portuguese, including the foreign ones. Non-Brazilian documents must also be submitted and notarized by the Brazilian consulate located in the associate's country of origin. They must then be translated by a sworn translator and registered with a Deeds and Documents Registry Office (cartório).



**ABOUT
THE
ORGANIZERS
OF
THIS
GUIDE**

BRAZILIAN TRADE AND INVESTMENT PROMOTION AGENCY (APEX-BRASIL)

The Brazilian Trade and Investment Promotion Agency (Apex-Brasil) works to promote Brazilian products and services abroad and to attract foreign direct investments to strategic sectors of the Brazilian economy.

In the investment attraction segment, Apex-Brasil focuses on foreign companies with projects that have the potential to bring technological innovation and new business models to Brazil, strengthen domestic industrial supply chains, have a direct impact on local job creation and improve export volumes and diversification.

Apex's main goal is to help and facilitate investors' decisions as they set up their business in Brazil. The agency's service portfolio includes identifying and reaching qualified contacts; preparing market intelligence on leading industry sectors, markets, economic trends; and mapping local partners and opportunities for investors, including the identification of suitable locations, potential costs and other business options. The Agency also acts as a liaison between the investor, strategic partners, suppliers and local authorities.

Currently, Apex-Brasil proactively promotes the following sectors:

- ▶ **Agribusiness**
- ▶ **Automotive**
- ▶ **Infrastructure**
- ▶ **Life Sciences**
- ▶ **Oil and Gas**
- ▶ **Renewable Energy**
- ▶ **Research and Development**
- ▶ **Private Equity & Venture Capital**

Apex-Brasil also works as a channel to connect foreign investors with local companies, universities and research centers to establish partnerships, joint ventures and other types of collaboration. Apex-Brasil can also help capital investors in the process of identifying opportunities, projects and companies for venture capital and private equity investments in the country.

Apex-Brasil is linked to the Brazilian Ministry of Foreign Affairs (MRE), working in close collaboration with the Ministry and with Brazilian Embassies abroad.

<http://www.apexbrasil.com.br/en/home>

MINISTRY OF FOREIGN AFFAIRS (MRE)

The Ministry of Foreign Affairs is responsible for framing and implementing Brazil's commercial diplomacy, including investment promotion.

Through its Investment Division (DINV), the Ministry of Foreign Affairs aims to foster foreign investment in crucial sectors of the Brazilian economy, such as energy, infrastructure and logistics, and information technology, as well as projects that involve a strong research and development component.

The Investment Division also works to help foreign investors inside and outside of Brazil, providing support for delegations that visit the country by identifying key value partners and preparing visit programs, as well as organizing and participating in investment promotion events outside the country.

<http://www.itamaraty.gov.br/en/>

TRADE PROMOTION SECTIONS (SECOM)

The Ministry of Foreign Affairs is also responsible for coordinating the Trade Promotion Sections (SECOMs), a network of trade and investment professionals located in 104 embassies and consulates around the world. The SECOMs assist companies seeking to invest in Brazil or to acquire Brazilian products and services.

SECOMs are also responsible for attracting and promoting foreign investment in Brazil and can work as local gateways for investors who seek guidance regarding opportunities in the country, including the regulatory framework, economic indicators and market intelligence.

<http://www.investexportbrasil.gov.br/?l=en>

MINISTRY OF PLANNING, DEVELOPMENT AND MANAGEMENT

The Ministry of Planning is the Federal Administration unit responsible for national strategic planning and the preparation of inputs for the formulation of long-term public policies aimed at national development. It is responsible for designing, monitoring and evaluating the investment plan and annual budgets.

The Secretariat for International Affairs (SEAIN) is the Ministry's department responsible for formulating guidelines, planning, coordinating policies and actions for the negotiation of public sector programs and projects linked to external sources, and for monitoring and evaluating the overall policies and guidelines of multilateral development agencies and the Brazilian position in those organizations. It also deals with international investors in order to attract foreign investment, especially for infrastructure projects.

SEAIN is also responsible for coordinating the Ministry's negotiations on international agreements for the development of investment and productive capacity, as well as acting as the Executive Secretariat for those agreements and memoranda of understanding signed between Brazil and other countries.

<http://www.planejamento.gov.br/assuntos/internacionais>

(Portuguese only)

OTHER USEFUL LINKS

INVESTOR SUPPORT

Apex-Brasil

<http://www.apexbrasil.com.br/en/home>

(English)

Invest & Export Brasil is a Brazilian government website that consolidates information from more than ten official portals dedicated to trade and investment promotion.

<http://www.investexportbrasil.gov.br/?l=en>

(English)

Brazilian Investment Information Network (RENAI) Ministry of Industry, Foreign Trade and Services

<http://investimentos.mdic.gov.br/index>

(English)

SEBRAE (Small Business Support Agency)

https://www.sebrae.com.br/sites/PortalSebrae/canais_adicionais/sebrae_english

(English)

EXECUTIVE GOVERNMENT AND MINISTRIES

Presidency of Brazil, News

<http://www.brazilgovnews.gov.br/>

(English)

Ministry of Foreign Affairs (MRE)

<http://www.itamaraty.gov.br/en/>

(English)

Ministry of Finance

www.fazenda.gov.br

(Portuguese only)

LEGISLATIVE

Brazilian Senate

<https://www12.senado.leg.br/internacional/en>
(English)

Brazilian House of Representatives

<http://www2.camara.leg.br/english>
(English)

BANKING AND FINANCIAL SECTOR

Brazilian Central Bank

<http://www.bcb.gov.br/en/#!/home>
(English)

Brazilian Economic and Social Development Bank (BNDES)

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/
(English)

Brazilian Federation of Banks (FEBRABAN)

<https://portal.febraban.org.br/?idioma=en-us>
(English)

Brazilian Securities and Exchange Commission (CVM)

http://www.cvm.gov.br/subportal_ingles/
(English)

BM&F BOVESPA

http://www.bmfbovespa.com.br/en_us/index.htm
(English)

OTHER

Federal Supreme Court

http://www2.stf.jus.br/portaIStfInternacional/cms/verPrincipal.php?idioma=en_us
(English)

Integration and Company Registration Department (DREI)

<http://drei.smpe.gov.br/>
(Portuguese only)

EMBRAPA

<https://www.embrapa.br/en/international>
(English)

Federal Revenue Service

www.receita.fazenda.gov.br
(Portuguese only)



 INVESTMENT GUIDE TO
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